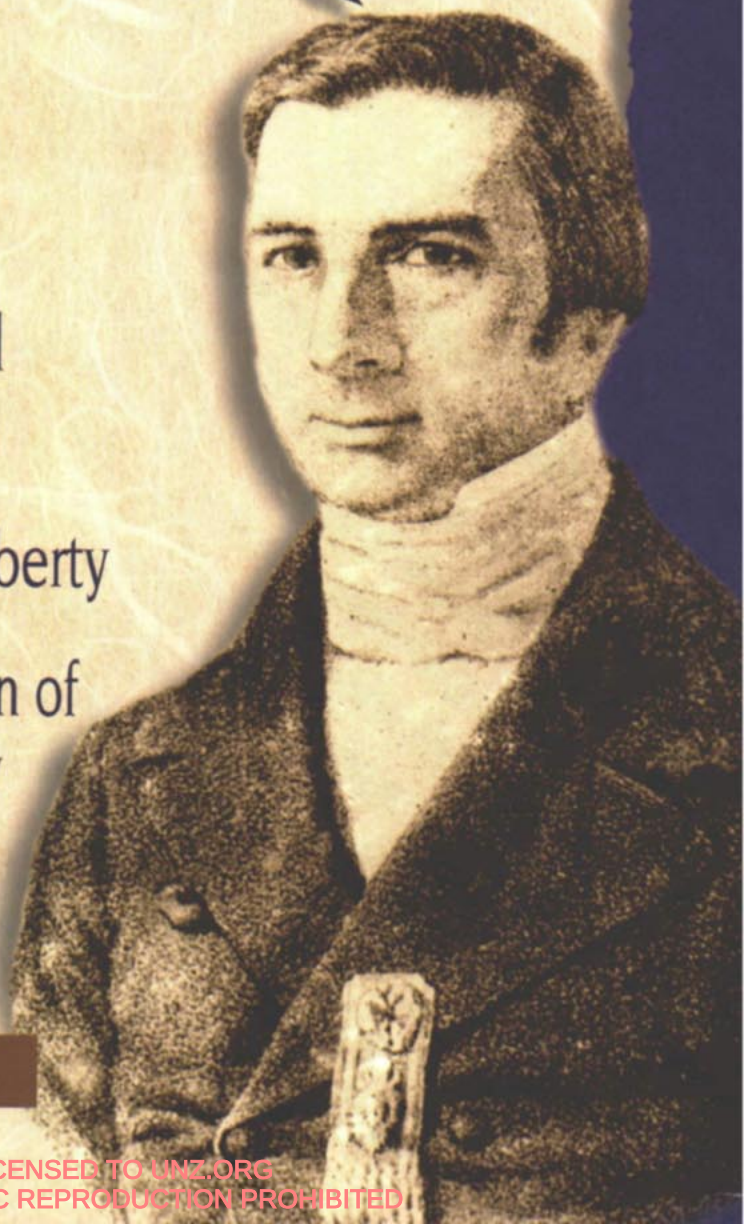
IDEAS ON LIBERTY

- Bastiat's Life
- What Is Seen and What Is Not Seen
- Harmony from Liberty
- Bastiat: Champion of Economic Liberty



JUNE 2001

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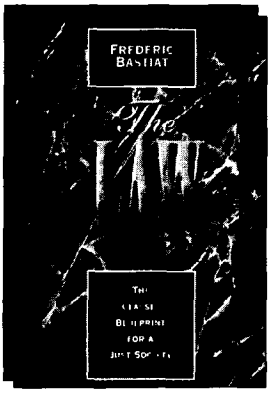
Bastiat 200th Birthday!

FEE has played a major role in rediscovering Frederic Bastiat's works and keeping them alive. To celebrate Bastiat's 200th, why not read or reread one of his classic works?

The Law



Ideas on Liberty columnist Russell Roberts calls *The Law* "An amazing and timeless treatment of the cost of using government to solve problems." This slim volume is a real classic—elegant and enduring, with the power to change the way people view the political process. (No wonder FEE has sold well over 500,000 copies!) With a new introduction by Walter E. Williams, and a foreword by *Ideas on Liberty* editor Sheldon Richman, *The Law* may be the single most essential of our essential library books. No one who loves liberty should be without it.

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Economic Sophisms

This masterful volume of essays by Bastiat exposes the fallacies of protectionism. Bastiat's devastatingly accurate attacks of the illogical, self-serving arguments of protectionists remain both relevant and entertaining. *Sophisms* contains the brilliant "Petition of the Candlemakers," as well as such gems as "The Negative Railroad" and "The Physiology of Plunder." This edition also contains an introduction by Bastiat's great admirer Henry Hazlitt.

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Selected Essays on Political Economy

Bastiat's lucid exposition of fundamental economic principles includes such masterpieces as "What Is Seen and What Is Not Seen," "The State," and "Property and Plunder." Thirteen wonderful essays explore issues that are still with us today: communism, labor unionism, protectionism, the balance of trade, government subsidies for the arts, the welfare state, taxes, and interest-free credit. In his introduction to this volume, F.A. Hayek praises Bastiat for his "insight into what was significant" and his "gift for going to the heart of the matter."

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Economic Harmonies

Originally published in 1850 just before Bastiat's death, *Economic Harmonies* is a natural complement to *Economic Sophisms* (discover why in the preface to *Harmonies).* Bastiat uncovers the great truth that lies at the heart of society, namely that the interests of all people are fundamentally compatible, that there is and can be no antagonism between the welfare of one and the welfare of all, that all people can live in peace and prosperity, provided there is a free and open market for goods and services.

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IDEAS ON LIBERTY

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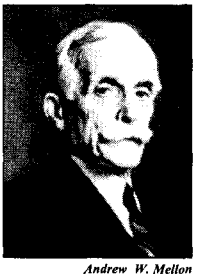

Andrew W. Mellon

Courtesy National Gallery of Art

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Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to 2000. The magazine is available in microform from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106.

PERSPECTIVE

It's Not Over Till It's Over

"Year after year in Washington, budget debates seem to come down to an old, tired argument: on one side, those who want more government, regardless of the cost; on the other, those who want less government, regardless of the need.

"We should leave those arguments to the last century and chart a different course."

—President George W. Bush

For me, those were the most significant words in President Bush's budget address to Congress in late February. I don't know which is worse: his saying them to get along with the big-government folks in Washington or his actually believing them.

It probably doesn't matter. It's the result that counts. The government is big now, very big. Our freedom and independence as individuals have long been compromised. If the state merely stays at its present size, our lives will continue to be subject to intrusions that earlier generations of Americans would have found intolerable.

That quotation might lead one to think that the size of the government is just right. But that isn't the case, because Mr. Bush proposes to increase spending. The budget will grow from $1.86 trillion to $1.96 trillion—more than a 5 percent increase. He proposes cuts in agricultural, business, and transportation subsidies—but only to enable him to increase education spending and other programs by substantially more than 5 percent. That's called "holding the line on spending." His tax cut will only *slow* the growth of government.

Mr. Bush's catchy saying ducks the interesting problem. How does one mediate between cost and need? Those who oppose any cut in government can always cite needs that remain to be addressed: needs are infinite. Yet any increase entails costs: resources consumed by government would have been used elsewhere for valuable private purposes, not to mention that freedom is curtailed by the exercise of government power. Mr. Bush isn't helpful.

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That's what happens when rights are left out of the equation.

In his speech he went on to say, "Government has a role, and an important role. Yet too much government crowds out initiative and hard work, private charity and the private economy. Our new governing vision says government should be active, but limited, engaged, but not overbearing."

Even on its own terms, this approach to government would require an ability for fine tuning hitherto unknown among politicians and bureaucrats. The lip service to limits is pathetic. Limited to what? Subsidizing religiously oriented social-work organizations? Imposing education standards and testing requirements on schools? This is a rather expansive view of limited government. In a sense, every government that ever existed was limited.

Moreover, the location of the fine line between "engaged" and "overbearing" will long be a matter of dispute. I wouldn't expect the state's administrators to err on the side of forbearance.

I guess the era of big government isn't quite over.

* * *

Two hundred years ago this month Frédéric Bastiat was born in France. Since no historical champion of freedom is more identified with the Foundation for Economic Education, this issue of *Ideas on Liberty* is dedicated to him and his great work.

The issue opens with a broad outline of Bastiat's life and writings, followed by a reprint of a portion of his best-known essay, "What Is Seen and What Is Not Seen."

Can we find practical applications of Bastiat's principles today? Karen Selick looks for the "unseen" in government attempts to regulate business on behalf of the disabled.

Bastiat's work can be summed up by the maxim that liberty produces harmony and social coordination. Norman Barry shows how this idea permeates the great liberal's work.

While Bastiat was far more than an economist, he is best known for making economic principles and fallacies clear to the layman. Richard Ebeling pens an appreciation of Bastiat the economist.

Another area where Bastiat made his mark was what has come to be known as constitutional political economy. James Dorn examines this aspect of Bastiat's work.

Are there two libertarian philosophies, one based on moral principles and one on a consideration of practical consequences? Many people are under that impression. Jim Peron explores the prospects of a reconciliation.

To read the news media, you'd think California is undergoing a power crisis because the free market in energy failed. Jerry Taylor advises against jumping to that conclusion.

Our columnists this month chew over some fascinating subjects: Donald Boudreaux wonders about wonders. Lawrence Reed hopes the new treasury secretary follows in the steps of his predecessor. Doug Bandow scrutinizes the U.S. bombing of Iraq. Dwight Lee continues his discussion of efficient pollution. Mark Skousen takes note of the fall of Keynes. Russell Roberts recaps the marvels of the unseen. And Thomas DiLorenzo, hearing the charge that prosperity can be bad, cries out, "It Just Ain't So!"

This issue's reviewers peruse books on foreign intervention, globalization, usurpations of liberty, the burden of government spending, the suburbs, and the alleged evils of capitalism.

—SHELDON RICHMAN

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Thoughts on Freedom

by Donald J. Boudreaux

Wonders in Perspective

Do you ever wonder why the major news media cover NASA's shuttle flights so extensively? I do.

Every time a shuttle launches or lands, several broadcast media cover these events live. And replays are shown on the evening news. Likewise, whenever a shuttle flight is in progress, we get regular reports on the news of the astronauts' daily achievements. These events are reported as if they're news. But they're not.

Walking on the moon was news—Alan Shepard's and John Glenn's first space flights were news—the first shuttle flight was news—the *Challenger* tragedy was news. These and some other of NASA's achievements (and failures) were genuinely newsworthy events. But the shuttle has flown regularly now for 20 years, with no serious problems since *Challenger* exploded in 1986.

Despite their continuing and extensive coverage by the news media, shuttle flights are no longer newsworthy.

When I first noticed myself being piqued at the coverage of non-newsworthy shuttle flights, I scolded myself. "Although seemingly routine," I thought, "let's face it: each shuttle flight is a spectacular achievement. These flights are not as routine and mundane as they now appear. We just *think* that they're mundane because the skill, the science, the engineering, and the organizational coordination that make each flight possible happen so regularly—itself a remarkable achievement! Perhaps CNN and other news outlets deserve praise for reminding us that, despite appearing to be ho-hum, each shuttle flight is a marvel."

But my self-scolding was inappropriate. My initial annoyance at shuttle-flight coverage is, in fact, justified. Successful shuttle flights are *not* newsworthy events in our world.

It's true, of course, that each shuttle flight is a marvelous achievement of human ingenuity—scientific and organizational—but our world is a barrage of similar achievements, almost all of which we regard as mundane and not the least bit newsworthy. There's nothing so special about shuttle flights to distinguish them from any of the cornucopia of other wonders that we encounter daily.

Is the flight of a shuttle a greater wonder than the flight of a Boeing 747? Each time a 747-400 takes off, 437 tons of steel, plastic, cloth, fuel, cargo, and people rise gracefully into the sky. Meals are served and movies are watched. Passengers eat, sleep, work, sip cocktails, relax, and chit-chat as if whizzing through the air seven miles above the earth's surface at nearly 600 miles per hour is among the most natural of human situations.

But the science, technology, and organizational coordination required for every jetliner flight is indeed wondrous. And yet, the news media don't report on each take-off and landing of jetliners.

Is a shuttle flight more wondrous than lasik surgery? Every time lasik surgery takes place,

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a patient's vision is improved by a laser beam used to reshape the delicate lens of a human eye. The human ingenuity, skill, and knowledge required to make each instance of lasik surgery possible is immense. And yet, the news media don't report on each operation of this kind.

Is a shuttle flight more remarkable than the fact that nutritious, delicious, safe, and inexpensive food and drink are available in Manhattan 24 hours a day, seven days a week, 52 weeks a year? The amount of human creativity, organizational effort, and technological achievements that make possible the routine, on-demand feeding of Manhattanites is staggering. Every day, people from around the country and the world employ their talents and their energies to ensure that New York is fed. But the news media don't report the regular feeding of Manhattan.

Is a shuttle flight more remarkable than the magazine that you now hold in your hands? Examine it closely. You're holding 32 sheets of paper bound within a heavier stock paper that serves as the cover. On each page is ink. Some handful of people—I don't know who they are or where they live—worked to extract the dyes necessary to make this ink. Another group of people felled the trees for the wood pulp necessary to make the paper. Another group of people extracted the minerals required to make the staples that hold the magazine together. And yet other people engineered the software used by each of the authors to compose his or her article—and on and on and on and on. The very magazine you now hold in your hands is the product of the voluntary cooperation of millions of people from around the world. The amount of creativity, ingenuity, knowledge, and organization required to bring this magazine to you is astonishingly vast. But you won't hear a television news anchor this evening report that you and thousands of other readers successfully received this month's beautiful issue of *Ideas on Liberty*. It's not news.

Our world is one of wonders—wonders of human creation and cooperation. Indeed, it's a wonder that these wonders are so familiar to us that we see them as banalities.

I don't blame the news media for not reporting each day that jetliners took off and landed successfully, that thousands of surgical operations took place, that Manhattan is fed, or that magazines are produced and delivered with boring regularity. But I *do* blame the news media for singling out NASA's achievements by reporting them as if they were more newsworthy than are the countless magnificent achievements that are woven into the lives of the extraordinarily fortunate citizens of modern, industrial society.

Evening news anchors and high-school science teachers might take exception to this claim, but I say it sincerely: the free market produces many more wonders—and wonders far more marvelous and significant—than have ever been, or will ever be, produced by NASA. One look around your everyday world will prove it. □

Donald J. Boudreaux will become chairman of the economics department at George Mason University on August 1, 2001. In commenting on his departure from FEE, Dr. Boudreaux said, "I have cherished my four years in Irvington and the opportunity to advance the work started by Leonard Read. Even before I became president, I was an enthusiastic supporter of FEE, writing for the magazine and commending the Foundation's work to my students. I hope to continue my relationship with FEE in some capacity, as my work at GMU allows."

For important news concerning the presidential search, see p. 62 of this issue.

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Prosperity Is Hazardous to Our Health and Wealth?

It Just Ain't So!

The left long ago abandoned the argument that socialism would produce greater prosperity than capitalism (although Paul Samuelson still clung to this belief as late as 1988) and now devotes most of its energy to fabricating myriad "problems" with capitalist prosperity. A particularly shallow example of this argument was recently on display in a February 5 *New York Times* article by David Callahan, entitled "Here's to Bad Times."

Callahan, the research director at a New York City public-policy organization called Demos, proclaimed that the prosperity of the 1990s left him "financially battered and psychically troubled." His biggest complaint is the rising cost of rental housing in New York City, which he blames on prosperity. He revels in the prospect of an impending recession that will presumably moderate the rise in housing costs.

It's true that New York City has experienced sharp increases in the price of rental housing, but the cause of those increases is government regulation, not prosperity. No city in America has used rent-control laws as widely and has had them in place as long. With over 1.1 million rent-controlled apartments, New York City is a showcase for the policy's destructive effects: housing shortages that get worse and worse every year; deteriorating housing quality; middle-class families trapped in apartments that are too small for their needs, while affluent retirees pay a pittance for large three- and four-bedroom apartments they have lived in for decades; and virtually no new construction. Callahan mentions all of these problems, but incorrectly blames them on "prosperity."

Because rent control makes rental apartment housing less profitable (or unprofitable altogether), the number of rental units built each year has dropped precipitously from 35,000 in 1969, the year in which rent control was expanded to hundreds of thousands of additional housing units, to a mere 8,000 units a year over the past decade, despite a burgeoning population in the city.

On top of that, zoning, environmental, and building-code regulations make it even more costly to develop apartment units in the city (and elsewhere). Regulation also stipulates that the residents of apartments have a "right" to reside in the apartments as long as they wish and can even veto a landlord's decision to renovate the building or turn it into co-ops or condominiums. This additional abolition of property rights makes it even more unlikely that anyone would want to build apartments in New York City. In fact, it is a virtual miracle that anyone does.

Regulation has made being a landlord in New York City so unprofitable that hundreds, if not thousands, of landlords have simply abandoned their properties. The city government has taken over some 40,000 abandoned apartments.

In short, 50 years of housing-market socialism, not free-market capitalism, is the source of Mr. Callahan's financial "battering." There is no quick fix to the destructive effects of a half-century of interventionism in housing markets, but the elimination of New York City's rent controls would be a necessary first step. It would go a long way to restoring the profitability of rental housing, increase its supply, improve its quality, and moderate housing prices in the city.

Mr. Callahan also complains about rising housing costs in other places, such as Silicon Valley. But that part of northern California is famous for its decades-long "growth control" policies, which have also restricted the supply of housing and escalated its costs. Some parts of nearby Marin County even imposed 100-

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acre-minimum–lot zoning regulations in the 1970s, which drove housing and land prices through the roof. And the same kind of environmentalist extremism that has caused the California energy crisis is also partly responsible for a housing crisis in some parts of the state because of regulatory restrictions on development.

Health-Care Costs

Mr. Callahan's second complaint is that middle-class people are also supposedly being "wiped out" by the rising costs of health care. Well, there is arguably no other industry in America that has experienced a larger increase in the degree of government control over the past 50 years than health care. As Milton Friedman documented in a 1992 Hoover Institution study titled "Input and Output in Medical Care," as the hospital industry was transformed from one that was primarily proprietary in the 1920s to today's system in which most hospitals are either government-run or government-subsidized "nonprofit" hospitals, more and more spending has led to less and less quantity and quality of health care, all other things equal. The increased governmental role in health care has led to a massive bureaucratization, which, coupled with government-induced stimulation of demand through Medicare and Medicaid, has caused health-care costs to explode.

Callahan's third complaint is that "materialistic values" supposedly "came to pervade our culture" in the 1990s. This is an unprovable assertion, although socialists of all stripes, from Marx to Mussolini to John Kenneth Galbraith, have been bemoaning increasing "materialism" for centuries. One wonders if Mr. Callahan is aware, moreover, that charitable giving in the United States was at an all-time high during the past decade when rampant materialism supposedly blossomed.

What he seems utterly unaware of is the basic economic fact that the only way to become wealthy in any capitalistic economy is to provide goods or services to very large numbers of people. If more and more people become "materialistic" and motivated primarily by the prospect of earning large amounts of money, there will inevitably be more and more entrepreneurs who become successful at providing us with more and better goods and services at lower prices. That's the only true route to great wealth, but in his confusion Mr. Callahan cries that he is "psychically troubled" by all of this.

His "solution" to these problems is more socialism: "[U]ntil we find a way to share the country's wealth more equitably . . . it's hard to get too excited about surges in national prosperity," he writes. So he celebrates the coming recession: "As I see it, the good times are coming, not going."

How a recession, which would cause thousands of New Yorkers to lose their jobs, would help the middle class that Mr. Callahan professes to be so concerned about is not explained. □

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IDEAS ON LIBERTY
JUNE 2001

Bastiat's Life

by Sheldon Richman

Frédéric Bastiat (1801–1850) merits a hallowed place in the annals of political economy. A member of the French Liberal, or laissez-faire, school of economists that included the great J. B. Say, Bastiat marshaled logic, clarity, and exuberant wit in the cause of understanding society, prosperity, and liberty. In a series of brief essays and pamphlets, and a treatise on political economy, Bastiat taught, *contra* Rousseau, that there is a natural harmonious order to the social world, an order that emanates from the free exchange between human beings driven to satisfy unlimited wants with limited resources. The result is a steady progress in the material well-being of all. Interference with that freedom, and with its corollaries, property and competition, he wrote, leaves people poorer as well as oppressed. This is so because interference bars individuals from the creative action they otherwise would have engaged in. The fruits of the creativity thus forgone are "what is not seen" in any act of intervention.

Claude Frédéric Bastiat was born in the southwestern French port city of Bayonne. Orphaned at 9, he came of age during the Napoleonic wars, with their extensive government intervention in economic affairs. As a young man, he chose the study of economics over business and farming. The multilingual Bastiat devoured the works of political economists from throughout Europe, with the deepest impressions left by Say, Adam Smith, Destutt de Tracy, and Charles Comte. In 1844 he began his brief writing career, stimulated by the free-trade efforts of Richard Cobden (who would become his close friend) and the Anti-Corn Law League in England. Bastiat first garnered attention with "The Influence of French and English Tariffs on the Future of the Two Peoples," published in the *Journal des Économistes*. Thus began his brief torrent of essays and pamphlets deftly exploding the economic fallacies of his day. Two series of those essays were compiled under the title *Economic Sophisms* (1845),[1] a bestseller that went through many editions and was translated into several languages. In 1850, as his life was nearing an end, Bastiat published *The Law*,[2] his eloquent foray into political and legal philosophy, and *Economic Harmonies*,[3] his treatise on political economy. Other works, including *Cobden and the League* (1845)[4] and *Capital and Rent* (published posthumously 1873?),[5] have not been translated.

Bastiat was an activist as well as an author. In 1846 he organized the French Free Trade Association in Bordeaux, before moving to Paris where he organized the free-trade effort on a national scale. He served as secretary-general and editor of the weekly newspaper *Le Libre Échange* (*Free Trade*).

In the revolutionary year of 1848, the French people, disgusted with monarchical

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corruption on behalf of special interests, forced their king from power. In the turmoil that followed, socialist and other utopian schemes gained adherents. To combat these ideas, Bastiat, sick from tuberculosis, won a seat in the National Assembly from Landes. His earlier amicable contact with the poet Lamartine had made the future leader of the Second Republic something of a free trader. But when Lamartine endorsed interventionist programs Bastiat publicly opposed him. In the assembly Bastiat fought the socialists and communists, on the one hand, and the monarchists, protectionists, and militarists, on the other. His health failing, he valiantly tried to stave off the barrage of assaults on economic and civil liberties. As France veered toward another revolution in the summer of 1848 (this one aborted), Bastiat, in speech and essay, continued his battle for freedom and against statism.

Bastiat did not live to see the end of the republic and the crowning of Napoleon III. He died in Rome on Christmas Eve of 1850—but not before he wrote volume one and part of volume two of his magnum opus, *Economic Harmonies.* In his final months he also wrote what would become perhaps his best-known essay, "What Is Seen and What Is Not Seen" (included in *Selected Essays on Political Economy*).[6] It almost never saw print. Bastiat lost the original manuscript, rewrote it, but was displeased with his effort and burned the second manuscript. Fortunately, he tried again.

Bastiat's Works

Bastiat's first book, *Economic Sophisms,* is a collection of short essays showing with unparalleled imagination the fallacy of government intervention. The underlying theme is that when government interferes with peaceful, productive activities, it sets obstacles against the process that improves the well-being of all. The most famous essay in this work is "A Petition," in which the candlemakers of France petition for relief from the "ruinous competition of a foreign rival who works under conditions so far superior to our own for the production of light that he is *flooding* the *domestic market* with it at an incredibly low price." The rival? The sun. The remedy requested? The mandatory shuttering of all windows. The result promised? The encouragement of not only of the candle industry, but also of all industries that supply it. Bastiat here mocked the multiplier effect long before Keynes was born.

In "The Negative Railroad," he takes up a suggestion that the railroad from Paris to Spain have a break in the tracks at Bordeaux to profit the businesses there. But what's good for Bordeaux's producers is also good for the producers of every town along the line. So why not "a railroad composed of a whole series of breaks in the tracks, i.e., *a negative railroad'"*? Such absurdity, Bastiat writes, is what comes of focusing on the producer and neglecting the consumer in economic analysis. No wonder Henry Hazlitt called him a "master of the *reductio ad absurdum*" and F.A. Hayek dubbed him a "publicist of genius."

Bastiat's *The Law,* is his venture into explicit political philosophy. In its clarity and brevity it is an achievement to behold. Philosophers have conceived law as resulting from a social contract with a paternalistic sovereign (Thomas Hobbes), as designed to effect the greatest happiness for the greatest number (Jeremy Bentham and the utilitarians), or as an arbitrary convention defining right and wrong (the legal positivists). In contrast, Bastiat is squarely in the natural law camp (along with John Locke): "Life, liberty, and property do not exist because men have made laws. On the contrary, it was the fact that life, liberty, and property existed beforehand that caused men to make laws in the first place." He locates the source of law in human nature: to live, human beings need liberty and property in order to transform nature's potential into usable things. Thus law that conflicts with liberty and property is not proper law, but legalized plunder, a constant temptation since men wish to achieve their objectives with the least exertion. The result is moral chaos, oppression, and material deprivation. Bastiat concludes with a call for freedom and a rejection of all proposals to impose unnatural social arrangements on people.

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Bastiat moved to the broader examination of the market system as a whole in *Economic Harmonies.* In it Bastiat methodically builds his theoretical edifice. He begins by recognizing the economic regularity that daily permits Paris to be fed. Remarkably, that regularity is not designed or maintained by any grand master. It results from the acts of countless individuals looking after their own interests. For Bastiat the task of economics is to explain this order produced by that "prodigiously ingenious mechanism"—the free market—which harmonizes the interests of the multitude, enabling each person to enjoy an array of consumer goods no one of them could produce in ten centuries. Bastiat leaves the reader no choice but to marvel at both the market's complexity and its peerless facility at improving our material circumstances. For him, society is a system of *exchange of services* founded on self-interest, private property, and free competition, whose rationale is the benefit of *consumers.*

This stands in contrast to the British economists—notably Adam Smith and David Ricardo—who concentrated on the production of material wealth. It is in the very nature of this system, Bastiat taught, that it requires no central direction; indeed, all attempts at directing it lead to poverty and despair. Bastiat thus left a monumental and eloquent brief against socialism and all other forms of government economic intervention, most famously protectionism. The *tour de force* covers exchange, value, wealth, capital, land, competition, rent, wages, savings, population, and even that scourge of progress, war. While the work lacks some of the insights achieved later by the subjectivist Austrian school of economics, Bastiat's picture of the market process is sophisticated and valuable.

Selected Essays on Political Economy, a posthumous collection of essays and pamphlets, contains some of Bastiat's best writings. Here he debunks, for example, the doctrine of the balance of trade, pointing out that if it is better to export than to import, then best of all would be for ships carrying exports to sink so that no imports may return as a result. Also in this volume is his essay "The State," which contains the oft-quoted truth, "The state is the great fictitious entity by which everyone seeks to live at the expense of everyone else."

In "What Is Seen and What Is Not Seen," Bastiat's perspicacity and perspicuity are on display. He begins with a story of a boy who has broken a window. An onlooker points out the silver lining of the boy's mischief: the glazier will earn six francs plying his trade, his industry thus encouraged. To which Bastiat protests, "That will never do! Your theory stops at *what is seen.* It does not take account of *what is not seen."* What is not seen is that had the window not been broken, the six francs would have been available for things that the window-owner must now do without. He is therefore poorer! There is no silver lining. (See pages 12 to 14 in this issue.)

The phenomenon of the unseen has its roots in two of Bastiat's themes: *human wants are unlimited* and *resources are scarce.* As long as nature imposes these conditions, there is no danger of general overproduction. The work to be done is without end. All government interventions designed to create or save jobs, such as tariffs, are obstacles to progress because, by creating or maintaining artificially high prices, they leave consumers less money with which to satisfy other wants. If cheap imported textiles are banned, people are unable to afford other goods the savings would have allowed. As a result, the community is less well off than it would have been.

Bastiat Today

Throughout his writings, Bastiat dealt with a single question: What sort of economy best promotes human flourishing? As noted above, his answer builds on two facts about the world around us: *unlimited wants* and *scarce resources.* Taken together, these conditions imply that a free society, one in which people can use their property as they see fit, is the best society. Only such a society allows people to reconcile their diverse goals and interests through trade—and this trade in turn supports the division of labor, which allows each to prosper to a degree far beyond what any could achieve alone.

To maintain this prosperity, Bastiat empha-

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sizes that government interference with the system of free exchange, no matter how well intentioned, has perverse effects. To fully understand this, we must look beyond the immediate effects to the secondary, "unseen" consequences. Only if we do so can we be sure that government policy is not "legal plunder," benefiting the few at the expense of the many.

Bastiat was neither the first nor the last political economist to recommend a free society. Others from Adam Smith to F. A. Hayek have done so. Nor was he the most influential: while he influenced important American and English economists in the nineteenth century, including Amasa Walker and William Stanley Jevons, he has been largely ignored since then. However, he has few peers when it comes to presenting the case for liberty with clarity and wit. Who can not see the folly of the proposal for the negative railroad or of the petition of the candle makers? And who can forget the formulation of "the seen and the unseen"? These and other literary gems constitute Bastiat's genius, making his works a treasure trove that can still instruct and delight readers who happen across them today.

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THE WISDOM OF BASTIAT

"There is power only in principles: they alone are a beacon light for men's minds, a rallying point for convictions gone astray."

—SELECTED ESSAYS ON POLITICAL ECONOMY

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IDEAS ON LIBERTY
JUNE 2001

What Is Seen and What Is Not Seen

by Frédéric Bastiat

In the economic sphere an act, a habit, an institution, a law produces not only one effect, but a series of effects. Of these effects, the first alone is immediate; it appears simultaneously with its cause; *it is seen.* The other effects emerge only subsequently; *they are not seen;* we are fortunate if we *foresee* them.[1]

There is only one difference between a bad economist and a good one: the bad economist confines himself to the *visible* effect; the good economist takes into account both the effect that can be seen and those effects that must be *foreseen.*

Yet this difference is tremendous; for it almost always happens that when the immediate consequence is favorable, the later consequences are disastrous, and vice versa. Whence it follows that the bad economist pursues a small present good that will be followed by a great evil to come, while the good economist pursues a great good to come, at the risk of a small present evil.

The same thing, of course, is true of health and morals. Often, the sweeter the first fruit of a habit, the more bitter are its later fruits: for example, debauchery, sloth, prodigality. When a man is impressed by the effect *that is seen* and has not yet learned to discern the effects *that are not seen,* he indulges in deplorable habits, not only through natural inclination, but deliberately.

This excerpt is from the first chapter of Selected Essays on Political Economy, *translated by Seymour Cain and edited by George B. de Huszar, published by the Foundation for Economic Education.*

This explains man's necessarily painful evolution. Ignorance surrounds him at his cradle; therefore, he regulates his acts according to their first consequences, the only ones that, in his infancy, he can see. It is only after a long time that he learns to take account of the others. Two very different masters teach him this lesson: experience and foresight. Experience teaches efficaciously but brutally. It instructs us in all the effects of an act by making us feel them, and we cannot fail to learn eventually, from having been burned ourselves, that fire burns. I should prefer, in so far as possible, to replace this rude teacher with one more gentle: foresight. For that reason I shall investigate the consequences of several economic phenomena, contrasting those *that are seen* with those *that are not seen.*

The Broken Window

Have you ever been witness to the fury of that solid citizen, James Goodfellow,[2] when his incorrigible son has happened to break a

1. [This pamphlet, published in July 1850, is the last that Bastiat wrote. It had been promised to the public for more than a year. Its publication had been delayed because the author had lost the manuscript when he moved his household from the rue de Choiseul to the rue d'Alger. After a long and fruitless search, he decided to rewrite his work entirely, and chose as the principal basis of his demonstrations some speeches recently delivered in the National Assembly. When this task was finished, he reproached himself with having been too serious, threw the second manuscript into the fire, and wrote the one which we reprint.—Editor.]

2. [In French, *Jacques Bonhomme,* used like "John Bull" in English to represent the practical, responsible, unassuming average man.—Translator.]

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pane of glass? If you have been present at this spectacle, certainly you must also have observed that the onlookers, even if there are as many as thirty of them, seem with one accord to offer the unfortunate owner the self-same consolation: "It's an ill wind that blows nobody some good. Such accidents keep industry going. Everybody has to make a living. What would become of the glaziers if no one ever broke a window?"

Now, this formula of condolence contains a whole theory that it is a good idea for us to expose, *flagrante delicto,* in this very simple case, since it is exactly the same as that which, unfortunately, underlies most of our economic institutions.

Suppose that it will cost six francs to repair the damage. If you mean that the accident gives six francs' worth of encouragement to the aforesaid industry, I agree. I do not contest it in any way; your reasoning is correct. The glazier will come, do his job, receive six francs, congratulate himself, and bless in his heart the careless child. *That is what is seen.*

But if, by way of deduction, you conclude, as happens only too often, that it is good to break windows, that it helps to circulate money, that it results in encouraging industry in general, I am obliged to cry out: That will never do! Your theory stops at *what is seen.* It does not take account of *what is not seen.*

It is not seen that, since our citizen has spent six francs for one thing, he will not be able to spend them for another. *It is not seen* that if he had not had a windowpane to replace, he would have replaced, for example, his worn-out shoes or added another book to his library. In brief, he would have put his six francs to some use or other for which he will not now have them.

Let us next consider industry *in general.* The window having been broken, the glass industry gets six francs' worth of encouragement; *that is what is seen.*

If the window had not been broken, the shoe industry (or some other) would have received six francs' worth of encouragement; *that is what is not seen.*

And if we were to take into consideration *what is not seen,* because it is a negative factor, as well as *what is seen,* because it is a positive factor, we should understand that there is no benefit to industry *in general* or to *national employment* as a whole, whether windows are broken or not broken.

Now let us consider James Goodfellow.

On the first hypothesis, that of the broken window, he spends six francs and has, neither more nor less than before, the enjoyment of one window.

On the second, that in which the accident did not happen, he would have spent six francs for new shoes and would have had the enjoyment of a pair of shoes as well as of a window.

Now, if James Goodfellow is part of society, we must conclude that society, considering its labors and its enjoyments, has lost the value of the broken window.

From which, by generalizing, we arrive at this unexpected conclusion: "Society loses the value of objects unnecessarily destroyed," and at this aphorism, which will make the hair of the protectionists stand on end: "To break, to destroy, to dissipate is not to encourage national employment," or more briefly: "Destruction is not profitable."

What will the *Moniteur industriel*[3] say to this, or the disciples of the estimable M. de Saint-Chamans,[4] who has calculated with such precision what industry would gain from the burning of Paris, because of the houses that would have to be rebuilt?

I am sorry to upset his ingenious calculations, especially since their spirit has passed into our legislation. But I beg him to begin them again, entering *what is not seen* in the ledger beside *what is seen.*

The reader must apply himself to observe that there are not only two people, but three, in the little drama that I have presented. The one, James Goodfellow, represents the consumer, reduced by destruction to one enjoyment instead of two. The other, under the figure of the glazier, shows us the producer whose industry the accident encourages. The

3. [Newspaper of the Committee for the Defense of Domestic Industry, a protectionist organization.—Translator.]

4. [Auguste, Vicomte de Saint-Chamans (1777–1861), Deputy and Councillor of State under the Restoration, protectionist and upholder of the balance of trade. His celebrated stand on the "obstacle" here quoted by Bastiat comes from his *Nouvel essai sur la richesse des nations,* 1824. This work was later (1852) incorporated in his *Traité d'économie politique.*—Translator.]

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third is the shoemaker (or any other manufacturer) whose industry is correspondingly discouraged by the same cause. It is this third person who is always in the shadow, and who, personifying *what is not seen,* is an essential element of the problem. It is he who makes us understand how absurd it is to see a profit in destruction. It is he who will soon teach us that it is equally absurd to see a profit in trade restriction, which is, after all, nothing more nor less than partial destruction. So, if you get to the bottom of all the arguments advanced in favor of restrictionist measures, you will find only a paraphrase of that common cliché: "*What would become of the glaziers if no one ever broke any windows?*" □

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IDEAS ON LIBERTY
JUNE 2001

Another Alcoa Executive at Treasury

When President-elect George W. Bush chose Paul H. O'Neill, chairman of the world's largest aluminum manufacturer, to be his secretary of the treasury, Bush said, "it's important for me to find somebody who has vast experience, who has a steady hand, and when he speaks, speaks with authority and conviction and knowledge." If O'Neill turns out to be half as good as the other Alcoa executive who once occupied the same cabinet post, he'll do the country great service.

From 1921 to 1932, Andrew William Mellon served Presidents Harding, Coolidge, and Hoover as treasury secretary. His business prowess was legendary. With an uncanny ability to pick cutting-edge technologies and the right entrepreneurs to bet on, Mellon built a financial and industrial empire in steel, oil, shipbuilding, coal, coke, banking, and aluminum. One of the giant firms he helped found was, of course, the Aluminum Company of America, or Alcoa. Mellon was already one of the three wealthiest men in America when Harding tapped him for the $12,000-a-year federal job at the age of 65.

Arguably, Mellon's greatest contribution to America was not the vast wealth he created or the vast wealth he gave away (a single $15 million Mellon gift built the National Gallery of Art), but rather the vast wealth his fiscal policies allowed millions of Americans to produce. Mellon's riches did not insulate him from the real world; rather, they reinforced in his mind just how the real world works.

When Mellon came to Washington, the federal income tax hadn't yet celebrated its tenth birthday, but the false prophets who had scoffed that it could ever get as high as 10 percent had already been shamed by events. The top marginal income tax bracket was 73 percent by 1921. Mellon noticed that confiscatory rates were putting scarce capital to flight as investors sought refuge abroad or in tax havens at home. In later years he would often point to John D. Rockefeller's brother William, who had $44 million in tax-exempt bonds and only $7 million in Standard Oil when he died in 1923.

Mellon's view of the deleterious effect of high tax rates was formed early in life. His grandfather left Ulster to escape a crushing tax burden, and Andrew's father made sure his son understood that. In America the Mellon family practiced thrift and entrepreneurship and credited the strong incentives of a free economy for giving them those opportunities.

Mellon was always a thoughtful, never an impulsive fellow. If he didn't have the facts, he didn't jump to conclusions. He took his time, did his homework, and paid attention to detail. But once he made up his mind, he knew what he had to do and didn't vacillate. What he lacked in oratorical skills, he more than made up for in intellect, in long hours of

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study, and in a quiet thoughtfulness that contemporaries recognized as admirable.

Arguing that taxes had to be slashed "to attract the large fortunes back into productive enterprise," Mellon as treasury secretary noted that "more revenue may often be obtained by lower rates." Henry Ford, he pointed out, made more money by reducing the price of his cars from $3,000 to $380 and increasing his sales than he would have earned by keeping the price and profit per car high. He relentlessly pressed Congress to do the right thing, and by 1929 when it passed his sixth tax cut of the decade, the top rate had been lowered two-thirds, from 73 to 24 percent. Those in the lowest income bracket (earning under $4,000 annually) saw their rates fall by an even greater percentage—from 4 percent to 0.5 percent.

Mellon also worked to repeal the federal estate tax, but secured just half the loaf; Congress cut it from 40 to 20 percent. At his urging, the gift tax was abolished. So many exemptions were introduced or raised that between 1921 and 1929, the number of Americans who paid federal income taxes fell by one million. Barely 2 percent paid any federal income tax at all by the end of the decade. Mellon would surely regard George Bush's campaign statement that "no American should pay more than a third of his income to the federal government" as laudatory, and probably rather tepid as well.

The soak-the-rich crowd cried foul and painted dire pictures of a hemorrhaging treasury. But as Burton W. Folsom points out in *The Myth of the Robber Barons*, "the result for Mellon in government revenue was a startling triumph: the personal income tax receipts for 1929 were over $1 billion, in contrast to the $719 million raised in 1921, when tax rates were so much higher." The economy grew by 59 percent in that period, America was awash in new inventions, and American wages became the envy of the world.

Class-War Agitation

Mellon had to deal with class-warfare agitators who despised his policies at the treasury. During the debate over the 1926 tax cuts, Senator George Norris of Nebraska charged that if the administration had its way, Mellon himself would reap "a larger personal reduction (in taxes) than the aggregate of practically all the taxpayers in the state of Nebraska." Norris never mentioned the other side of the coin: Mellon was paying more in taxes than all the people of Nebraska combined.

An even bigger thorn in Mellon's side was a fellow Republican, Senator James Couzens of Michigan. Couzens was a maverick who fought the tax-cutting, penny-pinching ways of the Harding and Coolidge administrations at almost every turn.

Neither Norris nor Couzens, nor other congressional enemies, made much of a dent in the treasury secretary's program in the 1920s. The great majority of what Mellon wanted he got, and very little of what he opposed ever passed.

To his further credit, Mellon exerted his influence to constrain the spending side of government. In 1928, total expenditures were actually a shade lower than they had been in 1923. In his own department, Mellon slashed expenses and eliminated an average of one treasury staffer per day for every single day during the 1920s.

Conventional history texts are prone to ignore these achievements of Mellon or even cavalierly declare that they set the stage for the Great Depression. But as any economist worth his salt will assert, it was mismanagement of the money and credit supply by the Federal Reserve that brought the good times to an end. Additionally, the massive hikes in taxes, tariffs, and regulations begun under Herbert Hoover reversed the Mellon program and assured Americans of a decade-long slump.

Will Paul O'Neill be another Andrew Mellon? We should all earnestly hope so. □

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IDEAS ON LIBERTY
JUNE 2001

BASTIAT BICENTENNIAL

The Unseen Costs of Disability Laws

by Karen Selick

I first heard of Frédéric Bastiat on graduating from high school, when someone who knew of my plans to become a lawyer gave me a copy of his fiery little book *The Law*. I soon discovered an even more important essay titled "What Is Seen and What Is Not Seen," published in 1850.

Using the example of a broken window, Bastiat attacks the still-popular fallacy that whatever promotes the circulation of money is good for the economy. Yes, a broken window is a boon for the glazier who replaces it, but the window's unfortunate owner will have that much less to spend on new shoes or books.

The glazier's extra prosperity can be readily documented and counted. What never shows up in anybody's GNP calculations are the sales lost by the shoemaker and the bookseller. These are the unseen, uncounted consequences that Bastiat warns us not to overlook in evaluating the benefit of some highly touted economic transaction.

In three excruciating years of law school, I never heard a professor mention Bastiat's work. Yet if I could set the curriculum, Bastiat's essay would be required reading for every law student. Events in modern-day Canada demonstrate that many people, including lawyers and judges, still haven't grasped the notion of the seen and the unseen that Bastiat explained 151 years ago.

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Former Justice Peter Cory, who retired from the Supreme Court of Canada in 1999, is a perfect example. Writing recently in the *Toronto Star*, he advocated adopting mandatory legislation (similar to the Americans With Disabilities Act) to force businesses to remove physical barriers that exclude the disabled from their premises, such as "two stairs to get into a restaurant." Existing antidiscrimination laws are "inefficient," he argued, because the disabled have to bring legal proceedings against each inaccessible site, one by one.

Presumably, in Mr. Cory's ideal world, every building other than owner-occupied single-family residences would have to be renovated to ensure not only entry-level access, but access to all upper floors also, since many businesses are upstairs. I wonder: has he ever looked into the number of two- and three-story walkup buildings in the country, and the cost of making each one fully accessible?

My law firm investigated the possibility of installing an elevator when it bought and renovated its three-story building in 1987. We settled for ground-floor access only. The cost of full access was prohibitive—utterly disproportionate to the value of the building. Multiply this expense many thousand times over and this is real money we're talking about—billions of dollars.

But, argues Mr. Cory, "Business will profit from . . . the spending power of consumers with disabilities." And later, "The taxpayer

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will benefit from the increased economic activity."

This is where Bastiat would point out the seen and the unseen. The disabled aren't sitting around accumulating piles of cash for lack of spending opportunities. If one new restaurant adds wheelchair access, disabled diners will have greater choice open to them, but whatever money they spend there will be unavailable for them to spend or invest elsewhere. That restaurant's gain will be some other merchant's loss. "Business" as a whole will not profit, nor will economic activity increase.

More Unseen Effects

But this is only a small part of the unseen consequences that Mr. Cory overlooks. Forcing businesses to spend money on major capital additions for the highly visible benefit of the disabled means that businesses won't have that money available to invest in other unseen, uncelebrated ventures.

What disabled people ultimately need is not to remain disabled with a bunch of Band-Aid measures like wheelchair ramps and elevators with Braille buttons. It's to be cured completely of their disabilities.

Someday, technological breakthroughs will allow scientists to regenerate spinal cords or develop artificial eyes. But achievements like this don't happen in poor countries. They happen in rich countries. The more capital a society accumulates, the greater is the likelihood that these high-tech, capital-intensive developments will occur.

The more capital we squander, renovating buildings that may never be entered by a disabled person, the less likely it is that an early breakthrough will occur.

Admittedly, the average businessman won't take the money he saved on an elevator and invent a process for regenerating organs. But he will donate some of it to a charity that's funding research toward that goal. And he'll invest another portion of it in a mutual fund that will buy stock in the health-sciences companies that will eventually make these breakthroughs.

The marketplace will always fill consumers' needs if a profit can be made doing it. As the population ages, facilities for the disabled may become sufficiently in demand to make stop-gap capital expenditures worthwhile. But there's a tradeoff. Accommodating immediate needs will postpone the day when disabilities can be cured, and prolong the time that the disabled will remain disabled.

No one—not Mr. Cory, or me, or any disabled person, or the world's most brilliant economist—can say when is the optimal time for that tradeoff to be made. This decision must be left to the millions of market participants who will be affected. □

THE WISDOM OF BASTIAT

"I do not call upon the state to compel everyone to accept my opinion, but, rather, not to force me to accept anybody else's opinion."

—SELECTED ESSAYS ON POLITICAL ECONOMY

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IDEAS ON LIBERTY
JUNE 2001

Harmony from Liberty

by Norman Barry

As we celebrate the 200th anniversary of the birth of Frédéric Bastiat we are reminded once again of how much contemporary economic liberals owe to writers of the past: monetary economics did not begin in Chicago or Vienna (it started in sixteenth-century Salamanca), trade-cycle theory long predates Mises and Hayek, many philosophers had intimated a uniform theory of liberty (including economic freedom) before Rothbard, public choice was discovered (without sophistication and needless complexity) a long time before the Virginia school, and doctrines of rights have a formidable ancestry. Bastiat can claim to have had a hand in most of these innovations; and while Schumpeter may have, contemptuously, said that he was no economic theorist, he did admit that he was the greatest economic journalist of all time.

In a relatively short life, the last ten years of which produced a prodigious number of crucially important publications, Bastiat was an active participant in French public affairs, first in the unsuccessful battle for free trade and later in the struggle against the dangerous and burgeoning socialist movement in Paris. In these momentous events he proved to be a brilliant commentator whose message was by no means limited to the ephemera of the moment, but provided lessons for all time. The policy flaws he so expertly diagnosed turn up with depressing frequency today. But unlike our somewhat dour commentators, his political economy was expressed with an unsurpassed wit and a rare gift for parody.

If there is an overall message it is that there is an inevitable *harmony* in the world if only politicians would get out of the way and allow free individuals to coordinate their activities subject to a minimum of rules (derived from natural law). It is no accident that one of his most famous works was called *Economic Harmonies*. The important point is that Bastiat did not limit spontaneous order merely to the market, but saw it as a phenomenon produced by liberty across the whole of society, a view he expressed eloquently in his final paean to freedom, *The Law.*

At the time that he was writing, the harmony-inducing features of the market were under critical scrutiny, first by Malthus and later, and more importantly, by Ricardo. In the prognostications of the English Classical school, population pressure would drive wages down to subsistence, returns to capital would be close to zero in the stationary state, and the bulk of national income would be absorbed by rent to landowners. The French market tradition, beginning with Bastiat's mentor Jean-Baptiste Say, was much more optimistic, largely because it identified the entrepreneur as the driving force of economic progress and recognized the market's immense fecundity in the creation of endless

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opportunities for improving human well-being.

But Bastiat's achievements do not derive from *pure* theory; his theory of value was based on labor services and was not much different from the English orthodoxy. Since he had no conception of the margin, he could not resolve the familiar diamond-and-water paradox.[1] His theory of land rent, which described the lucky inheritor of vast estates as being productive, was a gift for Henry George and the "single taxers." His genius, however, was to demonstrate with common-sense logic that uncoerced exchanges between free agents were the source of wealth and that all politically inspired inhibitions with this were either motivated by faulty economics and ethics or, more likely, the desire of some people to live at the expense of others (rent-seeking).

Bastiat did not deny that we are all governed by self-interest,[2] but he recognized its Janus-like features: when individuals are not privileged by politics they will use self-interest to benefit themselves and mankind, but when the same persons control the law they will simply *plunder* the products created by others.[3] The only difference between the rent-seeker and the highwayman is that the former's actions have become "legal."

Economic Interrelationships

What Bastiat demonstrated was that economic events are interrelated. We should not look for the immediate effects of economic policy, which may appear benign, but explore its long-term consequences. When that policy is the result of government action, the consequences are almost always malign. This is shown in one of his most brilliant essays, "What Is Seen and What Is not Seen."[4] Here, using the fallacy of the broken window as an example, he shows that the destruction of an asset might lead to a temporary increase in employment, but it simply reduces expenditure elsewhere and a reduction in long-term economic coordination.

The same reasoning applies to public spending: we should not prop up industries for which the market has decreed there is no future. In a manner that anticipates perfectly Milton Friedman's onslaughts against Keynesianism, Bastiat argues that public spending simply replaces private spending with no overall increase in economic activity and, just as Public Choice was later to prove, such expenditure will actually reduce output and increase the supply of unproductive public servants. In this essay Bastiat also showed his understanding of the "middleman," or entrepreneur.[5] It is a concept essential for an explanation of how economic society is not to be conceived in rigid class terms, an implication of Ricardo's theory, but rather in terms of enterprising individuals, always alert to the possibility of doing things differently. It is also a pointer to the impossibility of overproduction, a twentieth-century economic illusion: for Bastiat, following Say, easily showed how the entrepreneurs would always find use for allegedly unwanted goods and services.

It is for his belief in the virtues of free trade that today's history of economic thought textbooks chiefly remember Bastiat. As he recognized, strictly speaking, trade has no borders and what we now call the "extended order" is a method of bringing economic prosperity, via the international division of labor and productive specialization, to a theoretically unlimited number of people. He is withering about the absurd rationalizations made by those who would limit such trade. Some people, it is said, have unfair advantages that make it impossible for others to compete. Bastiat wittily recognizes the cruelty and arbitrariness of nature and demands that the unfair advantages that the sun has in the provision of light should be eliminated.[6] We should be compelled to draw our curtains and close our doors to redress this grotesque imbalance. Think how many jobs that would create for candlemakers, he muses. The "law factory" in Paris is the last refuge for producers frightened of competition.

Although Bastiat was active in founding free-trade organizations in France, and was very close to the British campaigner Richard Cobden, the cause was lost after about 1848. The French were less developed industrially than Britain, and the workers had a short-run advantage in uniting with their employers in demanding protectionism (just as they do

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today). Furthermore, there was no obvious target in France, as there was in Britain with its Corn Laws (repealed in 1846). This egregious impediment to free trade actually united (temporarily) manufacturers and workers there.

Although the last two years of Bastiat's life were spent in fighting the socialism that threatened his country, the logic was the same—a demonstration of the inefficiency and immorality of state plunder. This requires a full understanding of his prescience about the state and an explication of his broadly correct theory of law.

Bastiat on the State and Politics

Although Bastiat was no anarchist, indeed his thought can be located in the correct republican tradition in France, he had a healthy distrust of the state. In a brilliant essay he produced a stunning definition: the state is "*that great fictitious entity by which everyone seeks to live at the expense of everyone else.*"[7] It may have a public-good function, yet even that is analyzed in purely individualist terms; but Bastiat is scornful of another tradition, which was to dominate nineteenth-century European thought. This conceived of the state as some superhuman institution, which was the embodiment of virtue, and was something that no rational person could recommend that we do without. In the absence of its extensive role, market society would degenerate into egoistic chaos. For Bastiat, the state must be analyzed in purely economic terms. Because of its power to tax and coerce, it became the main agent of plunder and it naturally attracted people who wanted an extra-market income. But as Bastiat insisted, the state has no income and it "can give nothing to the citizens that it has not first taken from them."[8]

The reason for the state's success is that it has a rough hand (which hurts people through taxation and other forms of coercion) and a gentle hand, which rewards them through subsidies and privileges. Bastiat's experience of France's socialistic experiments of 1848, when Louis Blanc embarked on absurd nationalization schemes and impossible guarantees of a right to work, convinced him that all this was the biggest danger facing Europe. He grimly foresaw a time in which all welfare, education, and economic production would be controlled by the government. The protagonists of this cause failed to make a distinction between government and society: the latter is the spontaneous ordering of people interacting and voluntarily exchanging their labor and goods. This process would provide all that was desired. The government was a coercive instrument that had a specified and limited role.

In mid-nineteenth-century France everything looked like the responsibility of government. As Bastiat often said, if there were no tariffs there would be no socialism because their existence fostered the illusion that the state was the source of society's wealth. In reality, however, the state in market society is the dispenser of privilege, from which everybody ultimately suffers. It was also the author of a usually bizarre redistribution of income.

The state was certainly not required to order the otherwise moral chaos of individualistic society (a deceit instigated by rent-seeking German Hegelian philosophers) for it is natural society that is harmonious and the state that is the source of disorder precisely because it sets one group against another in the desperate struggle for rents. The state does not produce anything—except bureaucracy, which, as Bastiat perceptively noted, expands in a Malthusian fashion.

Market society benefited from the creative powers of freedom, and in this Bastiat recognized its essential component—property. The link here was not merely utilitarian or empirical for as he said: "I question whether it is possible even to conceive of the notion of property without freedom."[9] Competition, which property and freedom produce, does have a clear utilitarian justification, though it also has a clear moral imperative. The exchange process, despite its being the source of riches for some, produces an outcome that is far superior to communism even in the generation of equality.

Statists were under the illusion that if certain things were not produced by the state they would not be produced at all. Bastiat was par-

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ticularly scathing about aid for the arts: Saying that those who oppose it are philistines is like saying that those who object to the state's involvement in religion are atheists.

However, his most sustained attack on the state's capture of civil society concerned education. In a brilliant and iconoclastic essay on classical education, Bastiat's target was not merely the inefficiency and perverse redistribution produced by the state, but also the much more exciting topic of what is taught in state universities and schools.[10] He loathed the predominance of classical education. He had contempt for ancient Greece and Rome, and even more for those intellectuals who lionized Plato and Aristotle. For Bastiat, the theorists and historians of the classical world justified slavery, venerated the anticommercial ethic, lauded the unfree and authoritarian social structure of Sparta, and glamorized a form of republicanism that valued the public world of political participation over privacy and individualism. It is an attitude that, in a sanitized form, communitarianism encourages today.

The fact that he (reluctantly!) said people should be allowed to pay for such socially dangerous education is a comment on Bastiat's libertarianism, rather than a sign of his respect for doctrines that had captured the European mind for centuries. Whereas Benjamin Constant's famous essay, "The Liberty of the Ancients Compared with that of the Moderns," was evenhanded and terribly sensible in its evaluation, Bastiat was provocatively, and correctly, in favor of the modern variety. Classical education was simply the historical and philosophical validation of socialism.

The Law

In the last year of his life, while dying from tuberculosis, Bastiat wrote a sustained treatise on political philosophy, *The Law*. Although it is a short work, it encapsulates succinctly what every libertarian has wanted to say about the relationship among legal processes, the economy, and politics: all within an individualistic morality. Yet *The Law* is really a brilliant distillation of the things he had been saying for some years in essay form. It is in many ways a melancholy tale of the collapse of proper legal standards in his own county. As he put it in "Plunder and the Law": "The law is no longer the refuge of the oppressed, but the arm of the oppressor. The law is no longer a shield but a sword!"[11] But the book is also an eloquent statement of the high ideals of legality that had been lost through politics, unrestrained democracy, and the contagious effect of mistaken ideas.

Bastiat is firmly in the tradition of natural law and is especially concerned that contemporary perversions of legality now have all the dignity and status of law properly called. The tragedy of modernity is that socialism proceeds by the law even though it has the same effect as straight robbery. There is, however, a moral order that precedes the dictates of positive, or enacted, law. And this natural law encompasses *negative* justice, basic human rights, and a very limited role for legitimate government. It covers "life, faculties, production—in other words, individuality, liberty, property. . . . [T]hese three gifts from God precede all human legislation and are superior to it."[12]

Since every individual has the moral right to defend his person and property, the law can only derive the rationale for its right to deliver the defense services from individuals. The law is simply an efficient public organization for the protection of natural rights: it has nothing in addition to those that inhere in private persons. When individuals organize themselves successfully into groups to do more than this, "the law has acted in direct opposition to its own purpose." This is precisely what has happened, and instead of law protecting the basic minimal rights, it has allowed persons to *acquire* rights, which even in Bastiat's day were beginning to include the right to work, to welfare, and to a share of other people's legitimately created property.

In Bastiat's jurisprudence there is no disharmony between law and justice. For the latter is interpreted entirely negatively. Fractious individuals may not agree on what justice is, and it would be folly for the law to attempt to enforce an inevitably contested conception. But there can be agreement about *injustice* (which is a breach of individual per-

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sonal and property rights). Only if the law is limited to the enforcement of fundamental moral principles can there be unanimous agreement on its range. Indeed, those arguments about the proper extent of the suffrage would be resolved if the law kept to its morally assigned limits. Then each person would have an *equal* interest in its impartial application and permanent preservation.

But in mid-nineteenth-century France, law came to be used by rival groups for their selfish advantage; the tension between voters and nonvoters then heightened. This could only result in "fighting at the door of the Legislative Palace." A firm critic of unrestrained majority rule, Bastiat would subject any procedural arrangement to the most searching of moral scrutiny. Even the United States, a country whose Constitution he generally admired, is rightly condemned for plunder in two areas—slavery and the tariff.

The malaise of French political life largely stemmed from two pernicious features of the human condition—greed and false philanthropy.[13] Mistaken institutional arrangements, often derived from the misapplication of the contract model to human affairs, have simply exaggerated the malign effects of these. Self-interest is benign when it operates in markets, but when it is allowed full sway in the political world it is socially destructive; it converts our natural tendency to harmony, via market transactions, to a cacophony that ends in violence. False philanthropy, or moral vanity, occurs when people's natural desire to do good is manifested in the political realm: redistributive taxation and compulsory welfare produces a kind of costless virtue that quickly turns out to be extremely burdensome. It enervates the productivity of the economy and drains the genuine morality of the people.

All these errors had their origin in mistaken ideas, and a large part of *The Law* is an eloquent critique of the French intellectual tradition, from before the Revolution and after. Bastiat would never let national pride divert him from the task of subjecting some of the great names in his own country's literary history to withering assault.

Once again the classical inheritance is his target, for his convincing argument is that modern errors ultimately stem from the abject adoption of ancient ideals. Of particular importance is his demonstration that the ancients had a distrust of ordinary people and their capacity for self-organization; this was carried to extremes by the revolutionaries. People needed a legislator to guide them to virtue, because he is apparently immune to the push and pull of desire and aversion and can be trusted always to act disinterestedly for the public good. This idea was peddled with typical literary flamboyance by Rousseau and carried out in the real world with deadly effect by Robespierre. In an image often used, the people were clay to be shaped by the potter for his own purposes. The worst offender was Mably, who openly admitted that the people must be coerced into virtue. The quotations that Bastiat provides from this writer are indeed chilling. Even Montesquieu, who predates the Revolution and is often admired by classical liberals for his argument about the pacific features of commerce, does not escape Bastiat's wrath: he recommended a mild redistributive scheme that was an invitation to plunder.

Bastiat in Our Time

It was a tragedy for French intellectual history that Bastiat's legacy has been neglected. In the century after his death France became statist to a degree that would have horrified him, though no doubt the policy errors that are repeatedly produced—nationalization, protection, maximum working hours, and more—would have brought from him a cynical chuckle and an apposite quip. He would have fun with the protectionist and regulatory nightmare world of the European Union. I am sure he would recommend jurisdictional competition here as a possible method of restoring liberty and relieving the people of the stranglehold of the politicians and bureaucrats.

Classical liberals, perhaps under the influence of Hayek, have forgotten that France once led the world in free-market thought. Bastiat's near-contemporary, de Molinari, actually produced the first serious anarcho-capitalist theory, but he is scarcely known out-

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side specialist circles. Yet whenever we read of the stultifying effects of protectionism, of rent-seeking politicians, of the illiberal effects of majority rule, and the relentless power of pressure groups to disrupt the efficiency of the market, we should remember that Bastiat was there first: without the diagrams and equations but with plenty of mordant exegeses and outrageous examples, both true and invented. □

1. Before the marginalist revolution in economics, people could not explain why water, so vital to life, is cheaper than diamonds.
2. See "Property and the Law," in *Selected Essays on Political Economy,* trans. Seymour Cain, ed. George B. de Huszar, with introduction by F.A. Hayek (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1995 [1964]), p. 106.
3. See "Property and Plunder," in ibid., pp. 152–93.
4. Ibid., pp. 1–50.
5. Ibid., pp. 19–21.
6 "A Petition," in *Economic Sophisms*, trans. and ed. Arthur Goddard, with introduction by Henry Hazlitt (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996 [1845]), pp. 56–60.
7. "The State," in *Selected Essays*, p. 144.
8. "Property and Plunder," p. 183.
9. Ibid., p. 171.
10. "Socialism and Academic Degrees," in *Selected Essays*, pp. 240–93.
11. "Plunder and the Law," p. 235.
12. *The Law,* trans. Dean Russell, with introduction by Walter E. Williams and foreword by Sheldon Richman (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996 [1850]), p. 1.
13. Ibid. pp. 20–22.

THE WISDOM OF BASTIAT

"Each advance over Nature, after first rewarding the initiative of a few men, soon becomes, by the operation of the law of competition, the gratuitous and common heritage of all mankind."

❧

"Self-interest is that indomitable individualistic force within us that urges us on to progress and discovery, but at the same time disposes us to monopolize our discoveries. Competition is that no less indomitable humanitarian force that wrests progress, as fast as it is made, from the hands of the individual and places it at the disposal of all mankind."

❧

"By virtue of exchange, one man's prosperity is beneficial to all others."

—ECONOMIC HARMONIES

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IDEAS ON LIBERTY
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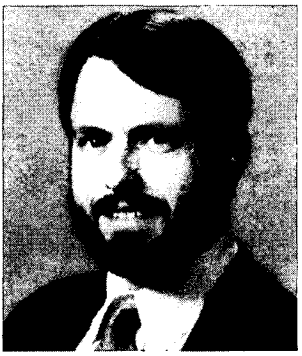

Bombing Without End

"We bomb, therefore we bomb," seems to be Washington's policy towards Iraq. Ten years of sanctions and military strikes have failed to tame or oust Saddam Hussein. Yet the Bush administration thinks only of doing more of the same.

U.S. policy in the Persian Gulf has long been a pernicious muddle. A half-century ago Washington helped install the Shah of Iran, whose thuggery eventually spawned an Islamic revolution that treated America as the "Great Satan."

After the humiliating seizure of the U.S. embassy, Washington was happy to aid Iraq's Saddam Hussein when he struck at his seemingly disorganized neighbor. Iran and Iraq essentially fought to a draw after years of horrific combat. Then Iraq did what Washington was afraid Iran was going to do—move on its Gulf neighbors. Saddam swallowed Kuwait and eyed Saudi Arabia.

The Gulf monarchies are ugly bastions of privilege in which antiquated royal families leech off their poor subjects. Saudi Arabia doesn't enjoy even the hint of liberalism evident in Kuwait: Riyadh is essentially a totalitarian dictatorship that enforces Islam in order to pre-empt political change.

But the various sheikdoms and emirates have oil, so the U.S. intervened to make the region safe for monarchy. Washington, aided by allied states, "liberated" Kuwait, in the sense of restoring the emir's regime, and wrecked the Iraqi military.

Yet an enfeebled Iraq raised the worrisome prospect of a resurgent Iran—which is why Washington previously had backed Iraq. So President George H.W. Bush and many of the officials who now people his son's administration left Iraq unconquered.

Washington established economic sanctions, created an inspections regime to forestall development of weapons of mass destruction, and imposed a "no-fly" zone throughout much of Iraq to inhibit military action against Shiite and Kurdish rebels. The United States also backed a motley assemblage of Iraqi dissidents while hoping for a coup.

A decade later, American policy has failed. Completely.

Sanctions have killed hundreds of thousands of Iraqi civilians but proved to be only a minor inconvenience to Saddam. Iraq has ended U.N. inspections.

The United States (backed by Great Britain) continues to bomb Iraq regularly, yet America's attempt to protect Iraqi Kurds contrasts with America's support for brutal Turkish suppression of Kurds in that country. And factional infighting has doomed Kurdish resistance, irrespective of the no-fly zone.

The lack of results has sapped support from allied states. France and Russia have tired of the ineffectual containment game and hope to profit from renewed commerce. Even some Mideast states, including Egypt and Turkey, have begun a wary dance with Iraq. They rained criticism down on the United States

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even as Secretary of State Colin Powell was preparing to visit the region in February.

"Part of a Strategy"

So now what? Explained President George W. Bush: "We will continue to enforce the no-fly zones. The no-fly zones are enforced on a daily basis. It is a part of a strategy, and until that strategy is changed, if it is changed at all, we will continue to enforce the no-fly zone."

That's really helpful. The administration has a strategy. The strategy has manifestly failed. But the administration will continue to pursue that strategy unless it changes that strategy.

Doing more of the same doesn't deserve to be called a strategy. Even many of those serving Saddam would probably like to see him overthrown. But congressional resolutions and presidential proclamations won't make it happen.

Anthony Cordesman of the Center for Strategic and International Studies was reduced to endorsing the attacks because "America cannot afford to show any weakness in dealing with Mr. Hussein." Iraq must be contained militarily, and that, apparently, means haphazardly bombing forces and installations that in no way threaten Iraq's neighbors.

After all, he said, "If Mr. Hussein created a successful military sanctuary in the no-fly zones, this would be seen as a symbol of his growing strength. If he then succeeded in shooting down an American or British plane, it would be seen as an Iraqi triumph."

Yet lifting the no-fly zone would not create any sort of "sanctuary": the Iraqi military is far weaker today than it was a decade ago, and a continuing arms embargo would keep it that way. If a U.S. or British plane is downed, it will be because it is buzzing Iraqi territory, not because Iraq is invading another nation. So much for the Pentagon's claim that the strike was in "self-defense."

Were Washington policymakers not wedded to failure, they would try something different. First, drop the no-fly zone. No purpose is served in preventing Iraq's air force from flying throughout Iraq.

Second, recognize the limits of U.S. power. Washington can't force a change in Baghdad. It certainly won't do so by funding groups like the Iraqi National Congress. The INC has spent $3 million so far to set up offices, hold a conference, and generate publicity. Reports Betsy Pisik of the *Washington Times*: "As resistance groups go, the INC leadership is noticeably upscale, with many of its visible members operating successful businesses in London."

Just a guess, but Saddam, one of the nastiest brutes to control a country, probably isn't scared. Instead of tossing more good money after bad, the West should plan to outwait a much-weakened Iraq, just as the West ultimately outlasted a variety of communist states.

Drop the Sanctions

Third, negotiate to drop sanctions in exchange for an inspections and import-control regime that limits Baghdad's access to the tools necessary to make weapons of mass destruction. The effectiveness of such a system would be limited, but with sanctions fraying daily and inspectors barred by Iraq since 1998, almost anything would be an improvement.

Fourth, expect friendly nations to develop militaries—and build popular support—to contain Iraq. The United States, with security dependents strewn about the globe, shouldn't pick up another set of permanent wards. Yet Patrick Cronin of the U.S. Institute of Peace lauds the latest attack for sending a message that other Arab regimes "are not left alone at the time of the tenth anniversary of the Gulf victory."

But only the prospect of being alone will move them to cooperate against Saddam and to adopt the sort of political reforms that would make them less vulnerable. The obvious illegitimacy of regimes like that in Saudi Arabia poses as great a danger to stable oil supplies as does anything being concocted by Saddam.

Washington has tried and failed in its attempt to transform Iraq. It's time to instead transform U.S. policy toward Iraq. □

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IDEAS ON LIBERTY
JUNE 2001

Bastiat: Champion of Economic Liberty

by Richard M. Ebeling

The defense of economic liberty has never been an easy task. Adam Smith expressed his own despair at this problem in *The Wealth of Nations*. After presenting his powerful criticisms of mercantilism—the eighteenth-century system of government regulation and planning—he despondently suggested that free trade in Great Britain was as unlikely as the establishment of a utopia.

He said that two factors made the success of economic liberty unpromising. "Not only the prejudices of the public," Smith said, "but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it."[1] By the prejudices of the public, Smith meant the apparent difficulty of many ordinary people to follow the often abstract and complex arguments of the economic theorist that demonstrate the superior workings of the free market over various forms of government intervention and control. And by the private interests of many individuals, Smith had in mind the wide variety of special-interest groups that gain from, and would therefore always lobby hard to maintain, government regulations that limit or prevent open competition. In combination, Smith feared, these two factors would permanently prevent the logic of economic freedom from ever winning in the arenas of ideas and politics.

In the nineteenth century, however, there was one champion of freedom who mastered the art of making the complexities of economic reasoning understandable to the layman: the French classical-liberal economist Frédéric Bastiat. More than one historian of economic thought has emphasized Bastiat's special abilities in undermining the rationales for protectionism, socialism, and interventionism.

Sir Alexander Gray, for example, said that, "No one has ever been quite so skillful in making the case of his antagonist look extremely foolish. Even now his most ephemeral work remains a joy to read, by reason of its wit, its merciless satire and the neatness wherewith he pinks his opponents."[2] Lewis Haney referred to Bastiat's "pleasing and luminous style" and how, "brilliantly, with fable and irony, the masses are appealed to."[3]

Eduard Heimann, a critic of the market economy, described him as, "A brilliant writer, [who] achieved world fame with his parable of the candle-makers, who petition for protection against the unfair competition of the sun in order that the community may become richer by the enrichment of their industry."[4] Charles Gide and Charles Rist pointed out that "If modern Protectionists no longer speak of the 'inundation of a country' or of an 'invasion of foreign goods' . . . we too often forget that all this is due to the small but admirable pamphlets written by Bastiat. . . . No one could more scornfully show the laughable inconsistency of tunneling the

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mountains which divide countries, with a view to facilitating exchange, while at the same time setting up a customs barrier at each end."[5] And even though Bastiat's pen was sharp against the protectionist and collectivist ideas of his time, William Scott emphasized that the French liberal's "attitude was calm and dignified and in spite of the incisiveness of his criticism he showed appreciation of the motives of his adversaries. He gave them full credit for a desire to promote the well-being of society, but wished simply to show that they were on the wrong path and, if possible, to set them right."[6]

Those qualities led Joseph A. Schumpeter to call Bastiat "the most brilliant economic journalist who ever lived."[7] And Ludwig von Mises praised him as a "brilliant stylist, so that the reading of his writings affords a quite genuine pleasure. . . . [H]is critique of all protectionist and related tendencies is even today unsurpassed. The protectionists and interventionists have not been able to advance a single word in pertinent and objective rejoinder."[8]

Other authors have modeled some of their own works after him. At the beginning of the twentieth century, the French free-market economist Yves Guyot said that his own little book, *Economic Prejudices*, was offered in the footsteps of Frédéric Bastiat, with the purpose of "[setting] forth truths in a handy, convenient form that is easy to remember, to criticize errors by means of proof that any one can apply," as Bastiat had done half a century earlier.[9] And surely the most famous and influential adaptation of Bastiat's method and approach in the twentieth century was Henry Hazlitt's *Economics in One Lesson*, in which the author said, "The present work may, in fact, be regarded as a modernization, extension and generalization of the approach found in Bastiat's pamphlet," known by the title "What Is Seen and What Is Not Seen."[10]

Orphaned at Nine

The bicentennial of Bastiat's birth offers an appropriate occasion for an appreciation of his defense of economic liberty and its enduring value.[11] Claude Frédéric Bastiat was born on June 30, 1801, in Bayonne, France, the son of a prominent merchant. His mother died when he was seven years old, and his father passed away two years later, when Frédéric was only nine. He was brought up by an aunt, who also saw to it that he went to the College of Sorèze beginning when he was 14. But at 17 he left without finishing the requirements for his degree and entered his uncle's commercial firm in Bayonne. Shortly afterward he came across the writings of the French classical-liberal economist Jean-Baptiste Say, and they transformed his life and thinking. He began a serious study of political economy and soon discovered the works of many of the other classical-liberal writers in France and Great Britain.

In 1825 he inherited a modest estate in Mugron from his grandfather and remained there until 1846, when he moved to Paris. During these 20 years Bastiat devoted almost all his time to absorbing a vast amount of literature on a wide variety of subjects, sharing books and ideas with his friend Félix Coudroy. It seems that Coudroy had socialist leanings, and Bastiat began to refine his skills in clear thinking and writing by formulating the arguments that finally won over his friend to a philosophy of freedom.

In the late 1820s and 1830s he began writing monographs and essays on a variety of economic topics. But his real reputation as a writer began in 1844, when he published a lengthy article in defense of free trade and then a monograph on *Cobden and the League: The English Movement for Free Trade*. While writing these works Bastiat began a correspondence with Richard Cobden, one of the primary leaders of the British Anti-Corn Law League, the association working for the repeal of all barriers to free trade. The two proponents of economic freedom became fast friends, supporting each other in the cause of liberty.

The success of these writings, and the inspiration from the success of Cobden's free-trade activities in bringing about the end of agricultural protectionism in Great Britain in 1846, resulted in Bastiat's moving to Paris to establish a French free-trade association and to start *Le Libre Échange*, a newspaper devoted to this cause.[12] For two years Bastiat

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labored to organize and propagandize for free trade. At first he was able to attract a variety of people in commerce and industry to support his activities, including delivering speeches, designing legislation for the repeal of French protectionism, and preparing writings to change public opinion. But it was to no avail. There were too many special interests benefiting from privileges and favors given by the government, and he was unable to arouse a sustained interest in his cause among the general public. It appeared that Adam Smith had been right in lamenting the prejudices of the public and the power of the interests, at least in France.

Enters the Legislature

Following the revolution of February 1848, Bastiat began a career in politics, serving first in the French Constituent Assembly and then in the Legislative Assembly. Having devoted most of his previous writings to demonstrating the fallacies in the arguments for protectionism, Bastiat turned his attention to a new enemy of economic liberty: socialism. In the Legislative Assembly he delivered powerful speeches against public-works programs, guaranteed national-employment schemes, wealth-redistribution proposals, nationalization of industry, and rationales for the expansion of bureaucratic controls over social and economic life. But because of a worsening tuberculosis that weakened his voice, he turned to the written word, producing a large number of essays detailing the absurdities in the arguments of the socialists.

Bastiat made his last appearance in the Assembly in February 1850. By spring of that year his health had declined so dramatically that he was forced to step down from his legislative responsibilities and spend the summer in the Pyrénées mountains in the south of France. He returned to Paris in September and visited his friends in the cause for free trade, before setting out for Italy in search of a cure for his tuberculosis. He died in Rome on December 24, 1850, at the age of 49.

Frédéric Bastiat's intellectual legacy in the fight for economic freedom is contained in three volumes. Two of them are collections of some of his most biting, witty, and insightful essays and articles, and are available in English under the titles *Economic Sophisms*[13] and *Selected Essays on Political Economy*.[14] In his last years, Bastiat devoted part of his time to a general work of social philosophy and economic principles, published under the name *Economic Harmonies*.[15]

As Henry Hazlitt rightly emphasized, the central idea in much of Bastiat's writings is captured in his essay "What Is Seen and What Is Not Seen," which was the last piece he wrote before his death in 1850.[16] He points out that the short-run effects of any action or policy can often be quite different from its longer-run consequences, and that these more remote consequences in fact may be the opposite from what one had hoped for or originally planned.

Bastiat was able to apply the principle of the seen and the unseen to taxes and government jobs. When government taxes, what is seen are the workers employed and the results of their labor: a road, a bridge, or a canal. What is unseen are all the other things that would have been produced if the tax money had not been taken from individuals in the private sector and if the resources and labor employed by the government had been free to serve the desires of those private citizens. Government, Bastiat explained, produces nothing independent from the resources and labor it diverts from private uses.

This simple but profoundly important insight is the theoretical weapon through which Bastiat is able to demonstrate the errors and contradictions in the ideas of both protectionists and socialists. Thus in such essays as "Abundance and Scarcity," "Obstacle and Cause," and "Effort and Result," he shows that barriers and prohibitions to freedom of trade only lead to poverty.[17]

Both Consumer and Producer

He points out that each of us is both a consumer and a producer. To consume a good we must either make it ourselves or make some other good that we think someone else will take in exchange for the good we want. As consumers we desire as many goods as possi-

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ble at the lowest possible prices. In other words, we want abundance. But as producers we want a scarcity of the goods we bring to market. In open competition, in which all exchanges are voluntary, the only way to "capture" customers and earn the income that enables each of us, in turn, to be a consumer is to offer better, cheaper, and more goods than our competitors. The alternative to this method, Bastiat warns, is for each of us as a producer to turn to the government to gain from our neighbors what we are unable to obtain through peaceful, nonviolent trade on the market.

Herein lies Bastiat's famous distinction between illegal and legal plunder.[18] The purpose of government, he says, is precisely to secure individuals in their rights to life, liberty, and property. Without such security men are reduced to a primitive life of fear and self-defense, with every neighbor a potential enemy ready to plunder what another has produced. If a government is strictly limited to protecting men's rights, then peace prevails, and men can go about working to improve their lives, associating with their neighbors in a division of labor and exchange.

But government can also be turned against those whom it is meant to protect in their property. There can arise legal plunder, in which the powers of government are used by various individuals and groups to prevent rivals from competing, to restrict the domestic and foreign trading opportunities of other consumers in the society, and therefore to steal the wealth of one's neighbors. This, Bastiat argues, is the origin and basis of protectionism, regulation, and redistributive taxation.

But the consequences of legal plunder are not only the political legitimizing of theft and the breakdown of morality through the blurring of the distinction between right and wrong—however crucially important and dangerous these may be for the long-term stability and well-being of society. Such policies also, by necessity, reduce the prosperity of the society.

Every trade protection, every domestic regulatory restriction, every redistributive act of taxation above that minimal amount necessary to secure the equal protection of each individual's rights, Bastiat insisted, reduces production and competition in society. Scarcity replaces abundance. Limiting competition reduces the supply of goods available to all members of the society. Imposing protectionist barriers on foreign trade or domestic regulations on production decreases the general availability of goods and makes them more expensive. Everyone is, in the end, made worse off. And thus Bastiat reached his famous conclusion that the state is the great fiction through which everyone tries to live at the expense of everyone else.

Is this the way men have to live? Was illegal and legal plunder the only form of social existence? Bastiat answered no. In *Economic Harmonies* he tried to explain the nature and logic of a system of peaceful human association through production and trade. Historians of economic thought and other critics of Bastiat have said this work demonstrates that, despite his brilliant journalistic talents, he failed as a serious economic theorist. They point to his use of a form of a labor theory of value or his faulty theory of savings, capital, and interest.[19]

But beyond these errors and limitations is an aspect of *Economic Harmonies* that still makes it insightful. *Harmonies* attempts to offer a grand vision of the causal relationships among work, the division of labor, voluntary exchange, and mutual improvement of men's condition, as well as the importance of private property, individual freedom, and domestic and foreign free trade. In freedom there is social harmony, since each man sees his neighbor not as an enemy but as a partner in the ongoing processes of human improvement. Where relationships are based on consent and mutual agreement there can be no plunder, only reinforcing prosperity, as each works to trade with his neighbors and acquire all the things that make life better for each and all.

If one looks at the period during which Bastiat devoted his efforts to fight for freedom and free trade, the conclusion would appear to be that his life ended in failure. Both during his lifetime and following his death France remained in the grip of the protectionist and

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interventionist spirit, never achieving the degree of economic liberty enjoyed in Great Britain through the second half of the nineteenth century.

And yet Bastiat's life should be seen as a glorious success. For the 150 years since his passing, each new generation of advocates of economic liberty has been inspired by his writings. His fables and essays read as fresh as if they were written yesterday, because they address the underlying nature of human association and the dangers from political encroachment on the social and market orders. □

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2. Sir Alexander Gray, *The Development of Economic Doctrine: An Introductory Survey* (London: Longmans, Green, 1931), pp. 244–45.

3. Lewis H. Haney, *History of Economic Thought* (New York: Macmillan, 1936), pp. 331–32.

4. Eduard Heimann, *History of Economic Doctrines: An Introduction to Economic Theory* (London: Oxford University Press, 1945), p. 124.

5. Charles Gide and Charles Rist, *A History of Economic Doctrines, From the Time of the Physiocrats to the Present Day* (Boston: D.C. Heath, 1915), pp. 329–30.

6. William A. Scott, *The Development of Economics* (New York: The Century Co., 1933), p. 244.

7. Joseph A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), p. 500.

8. Ludwig von Mises, *Liberalism: The Classical Tradition* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996 [1927]), p. 197.

9. Yves Guyot, *Economic Prejudices* (London: Swan Sonnenchein, 1910), p. v.

10. Henry Hazlitt, *Economics in One Lesson* (New York: Harper & Brothers, 1946).

11. The following brief summary of Bastiat's life and professional activities is drawn primarily from Dean Russell, *Frédéric Bastiat: Ideas and Influence* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1965).

12. For a brief account of the free-trade movement in Great Britain and its triumph in the middle of the nineteenth century, see Richard M. Ebeling, "The Global Economy and Classical Liberalism: Past, Present and Future," in Richard M. Ebeling, ed., *The Future of American Business*, Champions of Freedom, vol. 24 (Hillsdale, Mich.: Hillsdale College Press, 1996), pp. 9–60, and especially, pp. 11–17.

13. *Economic Sophisms,* trans. and ed. Arthur Goddard, with introduction by Henry Hazlitt (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996 [1845]).

14. *Selected Essays on Political Economy,* trans. Seymour Cain, ed. George B. de Huszar, with introduction by F.A. Hayek (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1995 [1964]).

15. *Economic Harmonies,* trans. W. Hayden Boyers, ed. George B. de Huszar, with introduction by Dean Russell (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996 [1850]).

16. In *Selected Essays,* pp. 1–50.

17. *Economic Sophisms*, pp. 7–27.

18. Frédéric Bastiat, "The Law," in *Selected Essays*, pp. 51–96; and, "The Physiology of Plunder," in *Economic Sophisms*, pp. 129–46.

19. See, for example, Eugen von Böhm-Bawerk, *Capital and Interest*, vol. 1: *History and Critique of Interest Theories* (South Holland, Ill.: Libertarian Press, 1959), pp. 191–94.

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IDEAS ON LIBERTY
JUNE 2001

Frédéric Bastiat: The Primacy of Property

by James A. Dorn

Frédéric Bastiat, although best known as an economic journalist, was also a pioneer in what has become known as constitutional political economy. Like James Buchanan and other constitutional political economists, Bastiat considers the nexus between economics and politics, employs methodological individualism, extends the exchange paradigm to collective choice, and traces the implications of alternative property rights structures for economic, social, and political order.

He derives the principles of a liberal social order from a theory of rights in which individuals have a fundamental right to be left alone to pursue their own interests provided they do not violate the equal rights of others. The primary duty of government is to serve the people by protecting their basic rights to life, liberty, and property. In his system of natural liberty—characterized by free trade and the rule of law—a spontaneous order emerges that enhances individual well-being through the process of free choice and wealth creation.

Bastiat recognized that a shift away from a minimal state to a redistributive state would undermine private property rights, attenuate individual freedom, and turn the true meaning of justice on its head. Bastiat saw consent as the only legitimate measure of justice, in both the private and the public sector.

Starting with the nature and rights of man and then proceeding to the role of government, the meaning of justice, and the legitimate function of the law, Bastiat laid the foundation for a constitution of liberty that would narrowly limit the power of government and maximize individual freedom.

Long before Public Choice economists used the term "rent-seeking," Bastiat showed that when government steps beyond its proper function of protecting persons and property, there will be an incentive for special-interest groups to seek privileged positions and use the power of government to capture benefits at the expense of taxpayers and consumers. Income and wealth will be redistributed and resources will be wasted in the process.

From Bastiat's perspective, rent-seeking is best seen as a form of "legal plunder," because the force of law is used to unjustly take from some people, without their consent, in order to benefit others. Tariffs, subsidies, usury laws, and welfare payments all violate the fundamental principle of justice, as understood by Bastiat and classical liberals.

On the 200th anniversary of Bastiat's birth, it is appropriate to reconsider his work from the perspective of constitutional political economy. The essential issue is how to solve the so-called social problem, that is, how to coordinate self-interested individuals so as to achieve economic, social, and political harmony. In addressing that issue, Bastiat takes

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individuals as they are and asks, What institutions (rules) are best suited to the perfectibility of imperfect man? Although Bastiat was influenced by those who went before him, especially Adam Smith, the physiocrats, and Jean-Baptiste Say, he has his own unique insights and can be considered a forerunner of Knut Wicksell and present-day constitutional political economists.

Pursuit of Self-Interest

A basic postulate of Bastiat's economic approach to politics is that all individuals pursue their own self-interest, by which he simply meant that individuals are born with an "instinct of self-preservation."[1] It is a universal characteristic of human nature that individuals tend "to seek happiness and to shun misery."[2] Individuals, no doubt, will make mistakes, but if they are free to choose and are held responsible for their actions, they will learn.[3] "In the last analysis," writes Bastiat, "we must look to the law of responsibility to find the means to achieve human perfectibility."[4]

Bastiat is critical of certain political theorists (French socialists, in particular) for their attempt to change the nature of man by asserting that self-interest is socially destructive and should be replaced by the motive of "self-sacrifice" for the "common good."[5] Such a "complete transformation of the human heart" is unrealistic and dangerous, according to Bastiat. Any attempt to destroy self-interest will, in his opinion, destroy mankind. Virtue cannot be forced on individuals by government; it must be spontaneous and consistent with self-preservation.[6]

In his famous 1848 essay, "Property and Law," Bastiat argued that it is futile to try to "suppress self-interest by decree." Government and the law cannot change human nature. Moreover, when individuals enter the public sector, they do not abandon their desire for personal gain—self-interest does not die, rather the so-called new motives (such as working for the honor of one's country or for the common good) become "self-interest of another sort."[7] Thus Bastiat was consistent in applying the self-interest postulate to both private and public choice. His starting point is always the individual and the natural motive to improve one's condition to achieve greater happiness.

The pursuit of happiness, however, cannot take place constructively without constraints on human action. Those constraints—in the form of rules against theft, fraud, murder, and so on—are both practical and consistent with the natural rights of each person to be free from coercion, except when it is used to protect life, liberty, and property.

For Bastiat, as for other classical liberals, the individual and his liberty and property precede government, and it is the duty of government to secure each individual's preexisting natural rights. Such rights are not a convention or a creation of government and the law; the law's function is to protect, not to take, one's justly (that is, freely) acquired property: "It is precisely because property as well as liberty is a right prior to the law that both exist only on condition of respecting the like right of others, and it is the function of the law to see that this limit is respected, which means to recognize and support this very principle."[8]

Freedom, property, and justice are inseparable in Bastiat's constitutional political economy. Freedom, or consent, is the measure of justice, both in the market and in the choice of constitutional rules: to be just, transactions (exchanges) must be free. "Exchange, like property, is a natural right," argued Bastiat.[9] To deny people the right to trade would be to deny them a fundamental human right. Likewise, since individuals' natural rights precede government, the just or legitimate state must ultimately rest on the consent of the people.

Bastiat understood the term "property," in a broad sense, as "the right to enjoy the fruits of one's labor, the right to work, to develop, [and] to exercise one's faculties, according to one's own understanding, without the state intervening otherwise than by its protective action."[10]

As each person has the right to defend his liberty and property, all individuals have the right to join together to provide a common defense of their natural rights to life, liberty, and property. But neither the state nor any

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individual has the right to take the property of others or to force others "to be industrious, sober, thrifty, generous, learned, or pious." Government, or "collective force," can only "be legitimately employed to further the rule of justice, to defend every man's rights."[11]

In his approach to government, he adopts methodological individualism and asks: "If a right does not exist for any one of the individuals whom collectively we designate . . . as a *nation*, how can it exist for that fraction of the nation having merely delegated rights, which is the government? How can individuals delegate rights that they do not possess?"[12]

The obvious answer is that they cannot do so without violating the "rule of justice." Thus for Bastiat, the state "can have no rationally justifiable functions other than the legitimate defense of the rights of the individual; it can be called upon only to safeguard the liberty and property of all the citizens."[13]

Justice and the Law

Justice requires protection of property rights and freedom of contract. When government oversteps its legitimate boundary—that is, when the law is used to attenuate private property rights and violate individual rights—injustice occurs. The results of government overreaching are "the rights of some violated for the advantage of others, liberties sacrificed, property rights usurped, capabilities curtailed, [and] acts of plunder perpetrated."[14]

In a free society, the function of the law, according to Bastiat, is "to prevent injustice from prevailing," rather than "to make justice prevail." This view makes sense, says Bastiat, because "it is not justice, but injustice, that has an existence of its own. The first results from the absence of the second."[15]

To be just, government and the law, both of which operate through the use of force, must remain within the legitimate bounds of that use. Those bounds are defined by a prohibition against injustice, not by a positive directive to do good. As Bastiat notes: "When law and force confine a man within the bounds of justice, they do not impose anything on him but a mere negation. They impose on him only the obligation to refrain from injuring others."[16] In this sense, Bastiat first defines "law" as the "collective force organized to oppose injustice" and then adds, "To put it briefly: Law is justice."[17]

The Law of Justice and Spontaneous Order

When government is limited to its legitimate functions, property will be protected, and liberty and justice will prevail. Individuals will be held responsible for their actions, and self-interest will be directed by a competitive market process to satisfy consumers' preferences in the long run. The spontaneous order, or harmony, that develops under free markets thus depends fundamentally on what Bastiat calls "the law of justice": "Men's interests, under the law of justice, tend to adjust themselves naturally in the most harmonious way."[18]

As Bastiat wrote, when government is limited to its proper role and property is secure, "Everyone would be sure of his future, at least in so far as it could be affected by the law."[19] Moreover, in such a regime, "It will be impossible for industry not to develop, for wealth not to increase, for capital not to be accumulated, with prodigious rapidity."[20]

Thus Bastiat was a true progressive: he believed that "the best chance of progress lies in justice and liberty."[21] His positive outlook is best summarized in this passage from his famous essay *The Law*, written in June 1850: "It is under the law of justice, under the rule of right, under the influence of liberty, security, stability, and responsibility, that every man will attain to the full worth and dignity of his being, and that mankind will achieve, in a calm and orderly way—slowly, no doubt, but surely—the progress to which it is destined."[22]

As a key proponent of free trade, Bastiat argued that trade is not only a human right, it is an important vehicle for promoting world peace: "In virtue of the principle of universal justice, no citizen being able to prevent another citizen from buying or selling abroad, the commercial relations of this nation will be free and widespread. No one will deny that

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these relations contribute to the maintenance of peace. They will themselves constitute a veritable and precious system of defense, which will render arsenals, fortified places, navies, and standing armies well-nigh useless."[23]

The Redistributive State and Legal Plunder

When government goes beyond the limits of universal justice and uses the law for plunder, rent-seeking will replace profit-seeking. The doors of government will then be open for endless interventions and redistributions to benefit some individuals or groups at the expense of others. Civil society will diminish as the rule of law erodes, and wealth creation will slow as the free market is suppressed.

In the redistributive state, self-sacrifice for the common good is regarded as a public virtue, and self-interest is frowned upon. The law is perverted and transformed from its legitimate function of protecting persons and property to forcing the transfer of income and wealth through market interventions, outright takings, and heavy taxes. Artificial rights (welfare rights) replace natural rights (property rights), and justice is turned on its head.

Bastiat clearly recognized that when the government oversteps its legitimate boundary, there is no end to the demand for further interventions and redistributions to benefit some individuals or groups at the expense of others. Instead of a positive-sum game, as occurs under limited government and voluntary exchange, there will be a zero-sum or negative-sum game under the redistributive state and its instrument of "legal plunder."

By "legal plunder," Bastiat meant "a violation of freedom and property rights."[24] In particular, "When property is transferred without the consent of its owner and without compensation, whether by force or by fraud, . . . I say that property rights have been violated, that plunder has been committed."[25] Once the law is used to protect special interests, rather than to protect private property, resources will be devoted to seeking the benefits government has the power to hand out in the form of subsidies, licenses, welfare payments, market access, and so on. Resources will be wasted in the process of rent-seeking, and overall wealth will be lower than in a market-liberal order.

The redistributive state, in addition to interfering with the spontaneous market order and wasting resources, will erode civil society and "weaken the moral fibre of a nation."[26] Individuals will lose their sense of responsibility and depend heavily on the state for their self-preservation. When the government is responsible for one's health, housing, employment, education, retirement, and general well-being, little is left for private initiative. Everyone will have an incentive to live off the state, which means to prey on his neighbors. In such a world, "the law becomes a great school for demoralization."[27]

What deeply concerned Bastiat was that the true nature of justice is distorted beyond recognition in the redistributive state, yet legislators pretend to be moral authorities. True justice requires that freedom prevail, that the rights to property and contract be safeguarded by law. Voluntary self-sacrifice to help others is considered a virtue, but forced self-sacrifice is a vice and violates the rules of justice. When the state imposes "fraternity," it distorts the real meaning of justice under the law: "Legal plunder may borrow the name of fraternity, . . . but it will never be anything but a principle of discord, confusion, unjust claims, terror, misery, inertia, and animosity."[28]

Bastiat foresaw that, with universal suffrage, democratic governments would come under increasing pressure to depart from first principles and use the force of law to buy votes rather than to protect property. He understood the danger of trying to use the state to "realize the general welfare by way of general plunder."[29] Under universal suffrage, Bastiat predicted that those who were previously disenfranchised and who were victims of legal plunder would now use the power of the law "to redress the balance by means of universal plunder. Instead of being abolished, social injustice [would be] made general."[30]

Two consequences of the "perversion of the law," which Bastiat foresaw under universal

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suffrage, are (1) "to efface from everyone's conscience the distinction between what is just and what is unjust" and (2) "to give to political passions and struggles, and indeed to the whole field of politics, an exaggerated importance."[31]

The rise of the redistributive state has decreased respect for private property rights and undercut individual responsibility. That should not be surprising: It is only natural for people to become less responsible when they bear only part of the costs of their actions. The politicization of economic life, the erosion of civil society, and the growth of rent-seeking that have occurred in Western democracies over the past 50 years attest to the soundness of Bastiat's logic of collective choice. It is because "the voter acts not only for himself, but for everyone" that Bastiat placed primary importance on limited government and individual responsibility, rather than on simple majoritarianism and democratic rule.[32] Like James Madison, his emphasis was on a constitutional republic, in which the powers of the state would be delegated and enumerated, and the rights of the people would be broad and consistent with liberty under the "law of justice." He was interested in the general welfare, but he would achieve it by narrowly limiting government and relying on "spontaneous fraternity" rather than on "legal fraternity."[33]

To restore economic and social harmony, the state must return to its proper role, which means that people must accept responsibility for their actions and respect the liberty and property of others. The imperfect nature of welfare rights as moral rights needs to be widely recognized if the moral pretense of "liberal" activists, operating under the banner of social justice, is to be replaced by Bastiat's rights-based approach to equality and justice, and legitimate constitutional order restored.

However, if people believe that "the state is responsible for establishing fraternity on behalf of its citizens," then Bastiat's prediction that "we shall see the entire people transformed into petitioners" will come true.[34] The challenge Bastiat presents is to understand the institutional infrastructure of a market-liberal order and to appreciate the moral and constitutional principles that condition the long-run survival of a free society. In this sense, Bastiat fits clearly into the mold of a constitutional political economist. □

1. Frédéric Bastiat, *Economic Harmonies*, trans. W.H. Boyers, ed. George B. de Huszar (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1964), p. 520.
2. Ibid., p. 521.
3. Ibid., pp. 520–21.
4. Ibid., p. 534.
5. Ibid., p. 522.
6. Ibid., pp. 522–23.
7. Frédéric Bastiat, *Selected Essays on Political Economy*, trans. S. Cain, ed. George B. de Huszar (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1964), pp. 106–107. Bastiat's criticism of the public-interest approach to politics parallels that of James Buchanan and Gordon Tullock in *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (Ann Arbor, Mich.: University of Michigan Press, 1962), p. 20.
8. Ibid., p. 103.
9. Ibid., p. 197.
10. Ibid., pp. 109–110.
11. *Economic Harmonies*, p. 457.
12. Ibid., p. 458.
13. Ibid.
14. Ibid., pp. 458–59.
15. *Selected Essays*, p. 66.
16. Ibid., p. 65.
17. Ibid., p. 91.
18. Ibid., p. 136.
19. Ibid., p. 122.
20. Ibid., p. 123.
21. Ibid., p. 137.
22. Ibid., p. 94.
23. Ibid., p. 124. For Bastiat, "universal justice" simply meant that "everyone exercises his rights as he pleases, provided that he does not encroach on the rights of others" (ibid., p. 122).
24. Ibid., p. 67.
25. Ibid., p. 64.
26. Ibid., p. 134.
27. *Economic Harmonies*, p. 463.
28. *Selected Essays*, p. 135.
29. Ibid., p. 65.
30. Ibid., p. 55.
31. Ibid., pp. 55–57.
32. Ibid., p. 57.
33. Ibid., p. 68.
34. Ibid., p. 128.

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IDEAS ON LIBERTY
JUNE 2001

Racial Profiling and the State

Virtually everyone wants to be on record opposing racial profiling in law enforcement, the use of race or ethnicity to help determine whom the police should suspect of criminal activity. Nothing is easier than opposing it.

That is understandable. There is something unseemly about targeting someone for a criminal investigation simply because of his skin color or ethnic membership. Those things do not constitute probable cause, and the police shouldn't act like they do.

But beware hypocrisy. One mark of a hypocrisy in politics is the failure to oppose that which necessitates something else one opposes because opposing it would conflict with one's agenda.

For example, few people who decry the role of money in politics go on to oppose what beckons that money: the life-and-death tax and regulatory powers held by government. If you oppose the former, you logically must oppose the latter, which is genesis of the alleged problem. If the government had nothing to sell, no one would be trying to buy. But few are guided by logic on the issue.

Similarly, most people who oppose racial profiling fail to oppose what necessitates it. On the contrary, they enthusiastically support precisely what gives rise to it. Thus protestations against racial profiling are empty posturing designed only to appeal to a set of voters.

Racial profiling is used most often to catch drug sellers and buyers and possessors of guns—in other words, to enforce laws against victimless crimes. It's not needed to catch real criminals—people who have violated the rights of others by killing, beating, raping, or robbing them. Victims often can describe their assailants to the police. Where no description is available, the police use fingerprinting, DNA, and other evidence-gathering measures. Racial profiling is superfluous.

Take the tragic incident in New York in 1999 when Amadou Diallo, an innocent and unarmed black man, was gunned down by four policemen. Whatever may be said about that tragedy, or its exploitation by Al Sharpton, it was not a case of racial profiling.* The police were looking for a man who had raped several black women in Diallo's neighborhood. They had a description of the perpetrator furnished by the victims. Diallo didn't fit a racial profile. He fit the description. Thus the policemen's decision to approach him could hardly have been a case of racial profiling, much less racism. Should they have questioned white males for the sake of fairness?

Racial profiling, on the other hand, is indispensable for catching perpetrators of victimless crimes, such as drug dealing and possession. Why? Because there are no complaining witnesses. The parties to a drug transaction consent and therefore have no reason to

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*For a valuable analysis of the tragedy, see Timothy Lynch, " 'We Own the Night': Amadou Diallo's Deadly Encounter with New York City's Street Crimes Unit," Cato Institute Briefing Papers, No. 56, March 31, 2000, at www.cato.org//pubs/briefs/bp-056es.html.

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describe each other to the police. The authorities would have no way of knowing a drug crime had taken place, much less who committed it. This makes victimless crimes fundamentally different from real crimes. It also makes law enforcement different.

Sting Operations

If all parties to a certain kind of criminal activity do not wish it to come to the attention of the police, the police have a problem. They must find other ways to ferret out evidence of the crime. They will have to rely on wiretaps, searches of residences, street stops of people on the basis of low-level suspicion, and sting operations, such as the one that led to the death of Patrick Dorismond, another innocent man in New York. The police have no other way of catching violators.

But whom shall they target? Obviously, the police will not want to waste time and money with truly random searches and sting operations. Rather, they will focus their efforts for the maximum return. If experience indicates that drug activity is concentrated in particular parts of town and that minority groups are overrepresented among people caught with drugs, the police will focus on those groups and parts of town. That may look like racism, but that's an unlikely explanation. Police win glory by making busts. They have nothing to gain by targeting members of a certain racial group, no matter how much they may dislike that group, if its members rarely engage in the illegal activity. The targeting of groups will tend to have some basis in reality.

Racial profiling is wrong in part because the war on drugs and other victimless activities is wrong. No violation of rights is intrinsic in the buying, selling, or using of drugs. In a free society, consensual activity between adults should not be a crime. If someone violates another's rights while using drugs, the criminal should be punished for the actual crime. Drugs, like alcohol, are no excuse.

We can go further and condemn racial profiling for contravening Western principles of jurisprudence. The Fourth Amendment to the U.S. Constitution states: "The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated, and no Warrants shall issue, but upon probable cause, supported by Oath or affirmation, and particularly describing the place to be searched, and the persons or things to be seized."

Assume a burglary has occurred in a particular part of town and there is no description of the criminal. However, crime statistics show that young black men are disproportionately represented among convicted burglars. It may indeed be reasonable to guess that the perpetrator is a young black man. But do those facts make the detention and search of all young black men reasonable? Does being young, male, and black in these circumstances constitute probable cause? I don't see how those questions can be answered in the affirmative. And if they are answered affirmatively, what case is there against the state's *preventing* certain people from committing crimes in the first place?

We have been considering what *government* may properly do before or after a crime is committed. Government, as an apparatus of legalized force, is a special case. Private individuals, on the other hand, should be free to act on racial profiles if they wish; specifically, they should be free to avoid certain people and parts of town. Thus taxi and pizza-delivery drivers should not be legally prohibited from exercising their discretion. If these profit maximizers pass up fares and sales to avoid certain areas and customers, they probably have a good reason that has nothing to do with racism. □

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IDEAS ON LIBERTY
JUNE 2001

Are There Two Libertarianisms?

by Jim Peron

Libertarian, or classical-liberal, thinking is routinely divided into two supposedly different camps. In a controversial article some years ago, R. W. Bradford (using the pen name "Ethan O. Waters") called these "The Two Libertarianisms": "moralism" and "consequentialism." Moralism is the belief that individual rights are justified through an appeal to natural law and natural rights. Consequentialism justifies liberalism by arguing that it will "optimize" the wealth and happiness of society.

"Waters" noted that a leading consequentialist was Ludwig von Mises, who wrote, "Liberalism is a doctrine directed entirely towards the conduct of men in this world. In the last analysis, it has nothing else in view than the advancement of their outward, material welfare."[1] Other prominent consequentialists would include Milton Friedman and his son, David. Many if not most free-market economists share the consequentialism of these writers: capitalism is the proper system because it is the most efficient system.

On the other side of the debate are such prominent libertarian thinkers as Murray Rothbard, Ayn Rand, and Tibor Machan, among many others. Rothbard carefully laid out his views of natural law and natural rights in *The Ethics of Liberty*.[2] Rand argued a libertarian moralism in most of her novels and in essays such as "Man's Rights,"[3] Tibor Machan laid out his case for natural rights in the excellent *Human Rights and Human Liberties*.[4] In the last century Lysander Spooner argued for a natural-law concept of liberty in his essay "Natural Law."[5] And Frédéric Bastiat's natural-law approach was reflected in the title of his treatise, *Economic Harmonies*.[6] The moralists basically argue that libertarianism is proper because it is morally right.

Regarding this alleged great divide, Professor Richard Epstein of the University of Chicago argued in his book *Principles of a Free Society* that the natural-law tradition "focuses on antecedents, not on consequences," while the "opposite trend in legal thought looks to the consequences of actions and rules, not to their antecedents."[7] Epstein lamented that a reconciliation between the two sides would be difficult at best: "These consequentialist theories may be conveniently, if inexactly, grouped as utilitarian. The natural lawyers had a much stronger intuitive sense of the role and place of individual liberty in ordinary life and political affairs. The consequentialists are much more concerned with economic progress and social welfare than with any conception of individual freedom, which they sometimes regard as naive, simplistic or even quaint. The intellectual divide between these two schools is strong and bodes ill for any effort at their substantive reunification."

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These two libertarianisms are supposedly completely different strands in classical-liberal thinking. And while I confess to feeling like a midget wandering about in the land of giants, I have trouble finding the irreconcilable differences.

Let's begin with how classical-liberal legal scholar Lon Fuller explained natural law:

> What I have tried to do is to discern and articulate the natural laws of a particular kind of human undertaking, which I have described as 'the enterprise of subjecting human conduct to the governance of rules.' These natural laws have nothing to do with any 'brooding omnipresence in the skies.' Nor have they the slightest affinity with any such proposition as that the practice of contraception is a violation of God's law. They remain entirely terrestrial in origin and application. They are not 'higher' laws; if any metaphor of elevation is appropriate they should be called 'lower' laws. They are like the natural laws of carpentry, or at least those laws respected by a carpenter who wants the house he builds to remain standing and serve the purpose of those who live in it.[8]

Some of the ridicule heaped on natural law theories by consequentialists has been directed at a very specific strand of natural law. Classic natural-law theory is fundamentally a Greek concept.[9] Variants of natural theory also held sway in the Roman Republic. But when Europe went into the Dark Ages, natural-law theories were forgotten. It was Thomas Aquinas and other Scholastics who helped repopularize the idea of a natural law. But the Scholastics, being good Catholics, grafted theology onto what, until then, had been a secular concept.

Two Strands of Natural Law

Philosopher Henry Veatch points out that with the rise of Aquinas two very different strands of natural law emerged: "the one theological in origin, the other naturalistic or secularized, based on the natural light of human reason."[10] Under the first strand, "what is good or bad, right or wrong, for man clearly depends on divine fiat. Accordingly, moral and political norms, so far from being in any proper sense 'natural' or discoverable by reason in the very nature of things, would appear rather to be but so many 'ought's' that are binding for no other reason than that God has decreed them to be so."

In some very fundamental ways, this theological strand of natural law theory was an abdication of natural law since it relied not on the laws of nature, but on supernatural revelation for its rules of conduct. As such, it was deeply concerned with the soul of man as a religious being. It would thus contend for various moral precepts that classical liberals would argue belong to man's private realm of morality and not to the public realm. It was concerned deeply about "vices" in addition to "crimes." While the Dutch jurist Hugo Grotius attempted to restore natural-law theory to its secular roots, Catholic natural-law theorists, like Francisco Suárez and Roberto Bellarmine, argued that rights are held collectively by people. But Grotius was more individualistic in his analysis. He said, "nature prohibits not all force but only that which is against society, that is, what takes away the right of others."[11] He defined justice as "abstaining from what is another's."[12] Spooner similarly called natural law "the science of mine and thine." J. G. Merquior said that Grotius helped build the modern "individual account of society."[13]

With this foundation in mind it is necessary to digress momentarily and consider what it is that the consequentialists believe. Let us look at some pretty basic ideas that all free-market advocates would accept. Why, for instance, do we oppose wage and price controls? The basic answer is quite simple: these controls distort the information that is conveyed to consumers and producers. This leads to a misallocation of resources. In other words, it leads to bad consequences. Capitalism is thus advocated because it leads to good consequences.

But exactly how does this digress from natural-law theory? Think back to what Fuller said: natural law is similar to the principles used by a good carpenter. Veatch used a similar analogy:

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> [Why] not consider ethics and politics, as construed in the light of this conception of natural law, as analogous to certain arts, skills, and crafts? Why does the skilled surgeon, for instance, make his incision in one way rather than another? Don't we say that it is because he knows how to do the job? There is presumably some reason—a real reason—for his doing it that way rather than another. In this sense, we should scarcely say that the rules of good surgical practice are mere agreed-upon conventions with no natural basis at all. . . . And so also for countless other skills and techniques—bait-casting, accounting, gourmet cooking, pleading a case, teaching a class, building a bridge, or whatever. In all of these cases the expert is said to know how to do the job, and his knowledge is but a knowledge of what the nature of the case or the situation demands, be it in surgery or fishing or cooking, or building a bridge or whatever.[14]

When we speak of the laws of nature what we are really saying is that the specific nature of entities requires specific actions if desired ends are to be achieved. Act in the wrong way and the results will not be those desired. Mises made it clear that the real difference between liberalism and socialism is not primarily in the desired ends but in the means. The socialists fail not because they necessarily desire the wrong things, but because they use the wrong methods to achieve them. There are consequences to their actions regardless of their intentions. You could say that there are natural laws of human action that require specific methods to achieve the desired ends. The consequentialist Mises, in essence, argued that there exist "natural" laws, though he would refer to them as economic laws. These are laws, or principles, of economics that exist because of the realities of human nature. And they are laws discoverable through the use of reason. These economic laws sound astoundingly like natural law.

The great liberal "moralist" Grotius said that natural laws are "so certain that no one can deny them without doing violence to himself."[15] He thus argued that unpleasant consequences will befall if these laws are ignored.

A Matter of Semantics

The entire debate between "two libertarianisms" seems to be one of semantics. The natural-law theorists argue that these laws can only be determined through the use of reason. They say that when the rational mind is applied to the specific nature of reality, and when specific ends are desired, it is the nature of reality that determines the course of action necessary to achieve those ends. This is natural law. And to ignore it leads to undesirable ends.

The reason the free society works, in the sense that we achieve more of the things we all agree are "good" for humanity, is that it is consistent with human nature. Capitalism works because it is consistent with the nature of man. When we say that socialism in all its guises does not work, we mean that it leads to undesirable consequences. And it does so because it ignores the laws of man's nature. Unless the nature of reality shifts dramatically, these natural laws will remain constant. The Roman jurist Cicero, in his *De Republica*, explained them quite nicely:

> True law is right reason in agreement with Nature; it is of universal application, unchanging and everlasting; it summons to duty by its commands, and averts from wrong-doing by its prohibitions. And it does not lay its commands or prohibitions upon good men in vain, though neither have any effect on the wicked. It is a sin to try to alter this law, nor is it allowable to attempt to repeal any part of it, and it is impossible to abolish it entirely. We cannot be freed from its obligations by Senate or People, and we need not look outside ourselves for any expounder or interpreter of it. And there will not be different laws at Rome and at Athens, or different laws now and in the future, but one eternal and unchangeable law will be valid for all nations and for all times.[16]

"Ethan O. Waters" confessed that in the end he finds himself arguing from a moral per-

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spective. And he said that the "moralists" he knows seem to always end up arguing the rightness of their position based on the consequences of the various alternatives. He then says: "Perhaps we should consider the two libertarianisms to be two aspects of the same basic belief. If libertarianism is a proper theory there is no reason to doubt that it is both morally right and eminently practical."[17]

But this is precisely what the secular natural law theorists, from the Greeks, to Grotius, to Veatch, have been saying all along. It is the laws of nature that determine the consequences. And when we seek specific ends, if our means are not in harmony with the laws of nature, we will fail. "Waters" is correct when he wonders if the two libertarianisms are not two sides of the same coin. They are. If everything has a specific nature, then the actions necessary to manipulate reality are determined by that nature. The consequences are determined by whether our actions are consistent with natural law.

Mises, it seems, also saw the similarities between the two libertarianisms. In *Theory and History* he wrote:

> Long before the Classical economists discovered that a regularity in the sequence of phenomena prevails in the field of human action, the champions of natural law were dimly aware of this inescapable fact. From the bewildering diversity of doctrines presented under the rubric of natural law there finally emerged a set of theorems which no caviling can ever invalidate. There is first the idea that a nature-given order of things exists to which man must adjust his actions if he wants to succeed. Second: the only means available to man for the cognizance of this order is thinking and reasoning, and no existing social institution is exempt from being examined and appraised by discursive reasoning. Third: there is no standard available for appraising any mode of action neither of individuals or of groups of individuals but that of the effects produced by such action. Carried to its ultimate logical consequences, the idea of natural law led eventually to rationalism and utilitarianism.[18]

I have trouble finding the real difference between libertarian moralists and libertarian consequentialists. If anything, the natural-law advocates are good on principles, while the consequentialists concentrate on results. But since good principles lead to good results, I don't see the great divide. For me there are not two libertarianisms at all. A free society is not only right but it works. What more can be said for it? □

1. "The Two Libertarianisms," *Liberty*, May 1988, p. 7. The quote is from *Liberalism: The Classical Tradition* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996 [1927]), p. 4.
2. Murray Rothbard, *The Ethics of Liberty* (New York: New York University Press, 1998 [1982]).
3. Ayn Rand, *The Objectivist Newsletter*, April 1963.
4. Tibor Machan, *Human Rights and Human Liberties* (Chicago: Nelson Hall, 1975).
5. Lysander Spooner, *The Lysander Spooner Reader* (San Francisco: Fox & Wilkes, 1992).
6. *Economic Harmonies,* trans. W. Hayden Boyers, ed. George B. de Huszar, with introduction by Dean Russell (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996 [1850]).
7. Richard Epstein, *Principles of a Free Society* (Reading, Mass.: Perseus Books, 1998), pp. 10-11.
8. Lon Fuller, *The Morality of Law* (New Haven, Connecticut: Yale University Press, 1964), p. 96.
9. See my "The Declaration of Independence: It's Greek to Me," *Ideas on Liberty*, August 2000.
10. Henry Veatch, "Natural Law: Dead or Alive?," *Literature of Liberty*, October-December 1978, p. 9.
11. Michael Zuckert, *Natural Rights and the New Republicanism* (Princeton, N.J.: Princeton University Press, 1994), p. 125.
12. Ibid., p. 141.
13. J. G. Merquior, *Liberalism: Old and New* (Boston: Twayne Publishers, 1991), p. 20.
14. Veatch, p. 10.
15. Zuckert, p. 122.
16. A. P. d'Entreves, *Natural Law* (London: Hutchinson University Press, 1951), p. 20-21.
17. "Waters," p. 11.
18. Ludwig von Mises, *Theory and History* (New Haven, Conn.: Yale University Press, 1957), pp. 44-45.

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Economics

Are People Pleased with the Efficient Amount of Pollution?

It is clear that zero pollution is not a reasonable goal once we recognize that polluting creates benefits as well as costs. Long before we reduced pollution to zero, there would be so much environmental quality and so few manufactured goods that the marginal value gained from increasing pollution would be greater than the marginal cost. There is an efficient amount of pollution that maximizes the value realized from all the things we enjoy, of which environmental quality is but one. The efficient amount of pollution occurs where the marginal value of pollution equals the marginal cost (see my column last month).

Economists are so enthusiastic about efficiency that one might believe that if we ever got to the efficient amount of pollution, everyone would be pleased with it. This is not true. Indeed it is likely that nobody would be pleased with the efficient level of pollution—everyone would prefer a different level. But why? How can economists get so excited about the efficient amount of pollution if nobody likes it? Good question, and the answer provides important insights into why we have a pollution problem in the first place.

Most goods are like food, clothing, housing, and entertainment, which can be consumed in different quantities and qualities by people in the same community. This is not true of environmental quality.

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Environmental quality is what economists call a public good. A given amount of environmental quality provided for one person in an area is simultaneously provided for everyone in that area. An additional person can benefit from a cleaner environment without reducing the benefits to others. This may sound like an ideal situation, but it creates serious problems. It is often difficult, if not impossible, to exclude people from the benefits of a public good; so some can benefit without paying. If too many people attempt to free-ride, less than the efficient amount of the good will be provided. Also, since everyone in a community has to consume the same quantity and quality of a public good, it is difficult to accommodate diverse preferences. For example, people who enjoy outdoor activities, such as jogging, will want extremely high air quality, while those who prefer bowling in smoky bowling alleys will hardly notice a smog alert.

The only way to harmonize different preferences for a public good is by charging people different prices for the same good. For example, since the jogger values clean air more than the bowler, the only way to satisfy both with the same air quality is to require the jogger to contribute more to providing clean air than the bowler. But there is a problem in charging for a public good. Even if a charge is imposed to pay for cleaner air, say, through taxation, there is no easy way to get people to reveal their preferences honestly to determine the right charge. People will claim little desire for clean air if higher charges are imposed on

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those receiving higher benefits. Of course, tax burdens are not determined from surveys on preferences but by the value of property holdings, income, and the whims of legislators. The clean-air–loving jogger may be a struggling graduate student who pays no taxes and the bowler may pay very high taxes. So even if we had the efficient level of air quality, the jogger and the bowler would be unhappy with it. The jogger would want much more spent on cleaning up the air, and the bowler would want much less.

I'll Pay You Not to Pollute

Next consider a situation involving only the bowler and the jogger, with the bowler having the right to any level of air quality he wants, but with it possible for him and the jogger to negotiate an agreement over the pollution level. Before the negotiations start, the bowler wants more pollution than is efficient—an amount where the marginal cost of pollution is greater than the marginal value—since he receives little of the marginal value from reducing pollution but pays all of the marginal cost. With negotiations, however, the bowler will consider the marginal cost the jogger suffers from pollution because the jogger is willing to pay an amount equal to that marginal cost to reduce pollution. As long as the marginal cost of pollution is greater than the marginal value, the jogger is willing to pay enough to motivate the bowler to reduce pollution. When pollution is reduced to its efficient amount, the jogger is no longer willing to pay enough to compensate the bowler for more pollution reduction, and both have done as well as possible because of the exchange.

Similarly, if the jogger had the right to clean air, negotiations would still lead to the efficient level of pollution. The bowler would be willing to pay an amount equal to his gain from more pollution to the jogger for accepting more pollution. Consequently, the jogger finds it to his advantage to consider the value the bowler receives from having more pollution as well as the value he receives from less. So again, as long as the marginal value of pollution is greater than its marginal cost, both can gain through exchange that will increase pollution to its efficient level.

We see that everyone will be content with the efficient level of pollution as long as the costs of negotiating and enforcing an agreement are zero. Unfortunately, many people are typically affected by pollution, and it would be extremely costly, if not impossible, for them to reach a mutually acceptable agreement on the pollution level and side-payments, and then enforce that agreement. This inability to cooperate on pollution decisions through exchange explains why there would be widespread dissatisfaction with environmental quality even if we achieved the efficient level of pollution. It also explains why achieving (or even determining) the efficient amount of pollution is almost impossible.

If people in the same area could consume different levels of environmental quality depending on their preferences, efficiency could be easily achieved through market exchange. Each individual would pay for the cost of improving his private environmental quality to the point where the marginal cost equaled the marginal value. There would be no free-riding, no controversy, and no pollution problems, since everyone would have the environmental quality he was willing to pay for. But even with the problems that exist because we have to consume environmental quality commonly, we can use market incentives to do a far better job than we are doing to reduce pollution. After considering what it takes to reduce pollution as cheaply as possible in my next column, I shall begin discussing the advantages of market incentives in controlling pollution. □

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IDEAS ON LIBERTY
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Did Deregulation Kill California?

by Jerry Taylor

Skyrocketing wholesale power prices in California and the daily threat of brownouts and blackouts have cast a pall over deregulation. "Liberals," led by California Governor Gray Davis, blame a restructuring law passed in 1996 for the crisis, arguing that it left the state vulnerable to market manipulation by greedy power producers. Conservatives for the most part agree that the 1996 reforms are the culprit. They charge, however, that the ham-handed regulations attached to those "reforms"—primarily the prohibition of long-term contracts between utilities and power generators and the mandatory imposition of a centralized daily spot market—are largely responsible for the price spike. The right also argues that California's regulations, crafted by environmental activists and anti-growth consumer groups, have long discouraged investment in new generating capacity and that the blackouts represent a long overdue flock of chickens coming home to roost.

While both sides are busily settling political scores, the real story of what happened in California is largely being missed. Accordingly, the important lessons that this crisis teaches about regulation and electricity are largely being overlooked: retail price controls are a recipe for disaster; and state regulators have little idea how best to efficiently organize important industries and certainly shouldn't attempt to do so under the mantle of "deregulation."

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The Architecture of California's "Deregulation"

Unlike the deregulation of the airline and trucking industries—which largely curtailed regulatory oversight of those industries and freed markets to go in whatever directions that market agents thought best—the "deregulation" of the electricity industry in California was heavily proscriptive and not, on balance, a loosening of regulatory controls at all. California simply replaced the old set of regulations with a new set of regulations, some of which were less interventionist than the old, some of which more.

The central thrust of the restructuring was to create a competitive wholesale market for electricity. Any investor who wished to get into the power business could henceforth do so. But politicians feared that the utilities would use their control of the electricity grid to "rig" this new marketplace so as to disadvantage competitors. Reformers thus adopted a whole new set of regulations and government interventions to ensure that a competitive market would arise:

- *Mandatory Open Access*. Utility companies were forced to allow any generator who desired access to the grid to gain such access at terms, conditions, and prices established by the state.
- *Vertical Disintegration*. Incumbent utilities could no longer sell the power they generated directly to consumers. Instead,

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utility generators could only sell power to the centralized state-managed power exchange in a day-before spot market.

- *Centralized Power Exchange.* Any power the utilities needed for its customers had to be purchased from the state-managed power exchange through the year 2003. Other parties could buy through the exchange on a voluntary basis. The exchange was charged with procuring power in a voluntary day-before spot market made up of bids from non-utility power generators.
- *Utility Retail Price Caps.* Regardless of the power source, utility rates were frozen in place until the source recouped its share of "stranded costs," which were levied by a tax on all ratepayers.
- *Independent System Operator (ISO).* The day-to-day operation of the grid (that is, the management of electricity traffic along the wires) would be directed, not by the utilities that actually owned the grid, but by a state official answerable to a 26-member advisory board made up of representatives of grid users. The ISO was further empowered to procure electricity on an emergency basis if on any given day the amount of power procured in the centralized power exchange was insufficient to meet demand.

Industry consultant Charles Cicchetti, former chairman of the Wisconsin Public Service Commission, echoed the thoughts of many when he wrote at the time, "Two things should be obvious. First, none of this should be called deregulation. Second, it is difficult to see how any of these myriad regulatory schemes, unless altered significantly but perhaps not fundamentally, will lower prices."

California's electricity market under the new regime, however, appeared to work reasonably well from 1997 through the spring of 2000. Even though the hoped-for retail competition for electricity ratepayers never fully materialized, wholesale electricity prices dropped to nearly $30 per megawatt hour (MWh), the equivalent of 3 cents per kilowatt hour (kWh), in May 2000. Those low prices allowed utilities to make a reasonable return on sales even with the rate cap.

Nor were any storm clouds apparent on the horizon before the crisis occurred. We have searched in vain for any industry report, analysis, or study that warned that a supply crunch was about to hit the state. On the contrary, the National Electricity Reliability Council (NERC) issued an advisory suggesting that California's reserve capacity heading into the summer of 2000 stood at 15 percent, a reserve that was roughly the same as those held by other states.

The Roots of the Crisis

California's happy state of regulatory affairs changed radically in 2000–2001 when two large supply shocks and a demand shock simultaneously struck. None of those shocks was triggered by state policy. All of them, however, had a serious impact on wholesale electricity prices.

Supply shock number one was a massive demand-driven run-up in regional wholesale natural gas prices, the fuel input for 49 percent of California's electricity capacity and nearly all its peaking capacity. From 1998–99, the average price of natural gas delivered to utilities in California was $2.70 per million British thermal units (Btu). By December 2000, however, wholesale gas prices had risen to an average $25 per million Btu. Given that 90 percent or more of a generator's cost of producing electricity stems from fuel costs, simple math demonstrates how those prices have driven electricity prices. Gas prices of $25 per million Btu, for instance, translates into a production cost of $400 per MWh for the most efficient gas-fired plants (or, alternatively, 40 cents per kWh) and $500 per MWh (50 cents per kWh) for the least efficient power plants.

While those prices are subject to daily fluctuations, the price of natural gas at the time of this writing still averaged around $15 per million Btu, a 455 percent increase over last year's price. That translates into $240–$300 per MWh for gas-fired electricity.

Remember, the price of electricity in the state-managed California power exchange is

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set by the highest price paid to any generator, so this hike in natural gas costs for the least efficient power generators set the price for all the electricity sold throughout the exchange, even power produced from other fuels.

Supply shock number two was caused by a three-year dry spell that dropped western water tables and thus reduced regional hydroelectric generation by 20 percent since 1998. Things became even worse in 2001 with streamflows in January only about 60 percent of average. The practical effect of this falloff in hydroelectric generation was essentially to wipe out California's reserve capacity, leaving the state with little generating capacity to fall back on during peak demand periods.

Making everything worse was the fact that electricity demand shot skyward first last summer with unseasonably warm temperatures (a 13 percent increase in cooling degree-days across the Pacific region from 1999 to 2000), and then last winter as a consequence of the coldest winter on record since temperatures were first systematically recorded in 1895. Demand for heat in December 2000 grew over the demand in December 1999 by an amount greater than the annual consumption of Finland, Norway, and Sweden combined.

Two important points thus emerge. First, each of those phenomena driving the price spike was an "act of God." No state politician, regulator, or businessman could have headed it off. Second, no regulatory system—not the pre-1996 regulatory regime, not the post-1996 regulatory regime, not a completely laissez-faire regime, and certainly not any of the various regulatory regimes in other states—could have prevented wholesale electricity prices from climbing to record levels under these circumstances.

The NOx Hammer

While environmental regulations in general affect both generating costs and the ability to site new capacity, California's requirement that generators have sufficient nitrogen oxide (NOx) emissions credits before going on-line has had a particularly important role in the price spiral.

In the winter of 1999, NOx credits were selling for about $2 per pound. By the summer of 2000, those same credits were selling for $30–40 per pound, where they have stayed ever since. Since an efficient gas-fired plant emits about a pound of NOx per MWh and an inefficient plant emits about two, that translates into an additional cost of $40–80 per MWh. California regulators moved last January to waive NOx permit requirements for power generators for the next three years, but the damage was done.

While it's true that the NOx program affects only those generators in the L.A. Basin—the source of only a fraction of the state's power—observers forget that the highest cost source of electricity sets the price for *all* electricity sold through the state power exchange. Aaron Thomas, a manager at AES Pacific, points out that generators in the L.A. Basin "are setting the clearing price for everybody in California. And to the extent that that market is influencing markets in the West, all of a sudden you're getting these basin units driving costs for 50 million people in the West."

The Damage from Price Controls

In September 2000 the state of California imposed a $250 per MWh price cap on electricity sold to the state power exchange. Since wholesale prices ranged between $150–$1,000 per MWh depending on the time of day, generators responded by dramatically curtailing their sales to the California exchange.

Moreover, since retail electricity prices were for the most part capped at between 6 and 7 cents per kWh ($60–$70 per MWh), generators that stayed in the market had no incentive not to hold up the power exchange for the best price available when the ISO came calling for emergency power to avert blackouts. After all, the wholesale price demanded by the generator would not have any effect on demand whatsoever . . . a sort of dream scenario.

Regardless of how much market manipulation might have been going on, simple math demonstrates that most of the price spike was real, reflecting higher input costs. Yet the price

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cap encouraged ratepayers to consume more electricity than was available. Blackouts were the inevitable result of attempts to regulate and legislate basic economic laws out of existence.

Unexpected shortfalls in transmission capacity, incidentally, also contributed to the blackouts. The main transmission line between northern and southern California (Path 15) has at times been limited to half its normal capacity, significantly complicating northern California's power supply. It's no coincidence that most of the blackouts have been concentrated in that region.

The Blame Game

While all informed parties largely agree with this story, some remain unconvinced that it fully explains the high prices and the lack of power. A thorough review of cost data by analyst Edward Krapels, an executive with ESAI Power and Gas Services, demonstrates in a recent issue of *Public Utilities Fortnightly* that, while the December price of wholesale power can be completely explained by the set of supply and demand shocks discussed above, an average of $50 per MWh between April and November of 2000 cannot be readily explained by increases in the cost of production.

Although one answer is that "strategic behavior" on the part of generators might explain that gap, another is that the shortage last summer caused numerous power plants to run flat out for months, postponing needed maintenance and repairs that came due this winter. Approximately 40 percent of the state's generating capacity, after all, comes from plants 30 years or more old. Power plants have accordingly been out of service at various times this winter in unprecedented numbers. During the first blackout on January 17, for instance, fully 11,000 megawatts of in-state power was off-line due to repair and maintenance work, about a third of the power typically required during peak winter time periods. During times of shortage, of course, prices will rise to whatever the market will bear.

Many have argued that California is short on electricity because environmentalists and consumer activists have blocked new capacity, slowly starving the state of needed power. Yet only once in the past ten years has neighborhood opposition blocked a power plant in California. Moreover, since Governor Davis was elected in 1998, California has approved the construction of nine power plants, with another 22,600 MW of generating capacity somewhere along the licensing process. A new study by Resource Data International concludes that "Even in the West, where shortages and unprecedented high prices have been the rule in 2000, more than enough new capacity is under development to bring power markets into balance and perhaps provide a mild over-correction within the next couple of years."

A better explanation for why more capacity wasn't built in California during the 1990s is simple economics. Wholesale electricity, after all, was "dirt cheap" there throughout the decade. Profit opportunities were minimal. The supply shock was completely unforeseen. Moreover, since investors couldn't be sure how regulatory changes would affect their businesses, it's natural that investment was curtailed during the legislative and regulatory struggle of the mid-to-late 1990s.

Exclusive concern over California's generating capacity, however, ignores the fact that the power market in the west is one, large interconnected system. There is no reason in principle to demand that California internally generate all its power; we would not, after all, demand that Rhode Island produce all the food it consumes. Importing power across state lines is no more economically risky than importing power across county lines. So whatever obstacles that might have prevented new facilities in California should not have affected overall power availability.

Self-Inflicted Regulatory Wounds?

A frequent argument forwarded is that, since other states are doing fine, there's something about California's "deregulation" plan that has caused the crisis beyond environmentalist meddling. After all, the average price for wholesale power in California was $313 per

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MWh in the middle of January 2001 compared to $74 per MWh in New England, $63 per MWh in New York, and $39 per MWh in Pennsylvania, New Jersey, and Maryland.

While it's true that some of the states that have restructured their electricity regulations have perhaps done a better job of it than California (Pennsylvania, for instance, did not force their utilities to sell off nearly as many generating assets as California, allowed long-term contracting for power, and established a more robust retail and wholesale market of competing suppliers), it's not true that the price differentials between power in California and the power in those states have anything to do with the "better" regulatory climate. It has to do with fuel composition.

Remember, the main drivers of the spike in California are the increased costs of natural gas and the decline in water tables that has crippled hydroelectric generation. States east of the Rocky Mountains, however, rely almost completely on nuclear and coal-fired power for their electricity during the winter (and only a few rely heavily on natural gas during peak demand periods in the summer). That alone explains why the electricity crisis has been confined thus far almost exclusively to California and its neighboring states.

If major exogenous supply and demand shocks were to hit those states touted as deregulatory "successes," they would find themselves experiencing the same meltdown going on in California. Bruce Radford, editor-in-chief of *Public Utility Fortnightly*, explains:

> As I see it, the Texas law (Senate Bill 7, the Texas Electric Choice Act, signed in 1999 by then-Governor George W. Bush) contains the same basic failing as did Assembly Bill 1890, the California law—it creates a tariff structure for Texas that will surely run aground if electricity prices don't behave as expected. Just like California, the Texas law creates a rate freeze keyed to revenue levels set under the old regulated regime, and then mandates a guaranteed rate cut on top of that for residential and small commercial customers (6 percent in Texas, instead of 10 percent, as in California), good until Jan. 1, 2007 (both with adjustments allowed for fuel cost increases).
>
> So if power prices in Texas should spike out of control between now and 2007, more than warranted by fuel costs, you could have the same mess as in California—utilities buying high and selling low.

The same critique applies to Pennsylvania, Michigan, Maryland, and all the other states occasionally trotted out as examples of deregulation "done right."

Some might be tempted to argue that California "went wrong" then by eschewing coal and nuclear generation, but that's questionable. Natural gas-fired generation made perfect sense in the 1990s; it was cheaper and easier to build than coal and nuclear plants. Nor was California alone in relying on natural gas for new capacity. Virtually all new power plants built throughout the nation in the 1990s were gas-fired. Remember also that decisions about new capacity are made not by state politicians or regulators but by private investors. While state authorities do have the final say over whether a plant does or does not get a license to go on-line, they do not dictate to investors what kind of plant to site.

Long-Term Contracting: The Way Out?

Many on both the left and right believe that the prohibition against long-term contracting for power is at the root of the crisis. The idea that long-term contracts can reduce electricity costs in the long run, however, is extremely dubious. First, below-market prices in the short term can only come at the expense of above-market prices for years to come, and locking in long-term prices at the summit of a price spike is hardly the best way to minimize cost in the long run. Second, long-term contracts do not offer a "better deal" than spot market purchases. They simply reallocate the risk of price volatility from the consumer to the producer. But producers require a premium to accept this reallocation of risk. Generators are not about to offer prices that will, over

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the long term, return them fewer profits than sales on the spot market. In fact, spot-market prices for electric and gas utilities have historically been more favorable to consumers than contract prices.

What if California's utilities had signed long-term contracts before the wholesale electricity price spike hit? Wholesale prices would still be sky-high. Independent power producers would be obligated to sell power at, say, 6 cents per kWh despite the fact that it cost them 15–100 cents per kWh to make that power. It wouldn't be long before the independent power plants started to declare bankruptcy and tear up the contracts, which is what happened during the mid-1980s in the natural gas industry. It's already happening to the few generators (including the natural gas giant Enron) that signed long-term contracts in California.

Nor would long-term contracting have stopped the blackouts. No matter how the contracts were written, it would not have changed the fact that exogenous supply and demand shocks have curtailed the supply (and, accordingly, increased the price) of electricity. As long as the state prevents retail prices from reflecting that scarcity, demand will outstrip supply and shortages will occur.

An axiom of economics states that the most expensive source of supply at the margin must set prices for all sources of supply. If it didn't, shortages would occur. So if 95 percent of all the utilities' power were supplied by long-term contracts (as the Governor hopes) at 6 cents per kilowatt hour, as long as 5 percent of that power were coming from the spot market, the price they'd charge to keep the lights on would reflect the spot—not the contract—price.

H.L. Mencken once said that "Democracy is the theory that the common people know what they want and deserve to get it good and hard." That appears to be the case in California today. A recent poll asked Californians whether they would prefer a regime that capped the retail prices of electricity but produced the occasional blackout or a regime that decontrolled retail prices but eliminated the blackouts. Two-thirds favored the former. In essence, Californians demonstrate the fact that there's a little bit of East Germany in all of us.

The simple fact is that high prices for power must be paid. Since it's politically difficult to have ratepayers pick up the tab on their monthly bill, California's politicians have decided to have taxpayers pick up the tab out of the state budget surplus. So Californians will not escape high prices. The problem with paying bills that way, however, is that the high prices will not affect electricity demand and thus will not play their intended role in allocating scarce goods as they would if they were simply passed on through the market.

The California electricity crisis is not really a story about environmentalists gone bad, deregulatory details left unattended to, or unrestrained capitalists running amuck. It's basically a story about what happens when price controls are imposed on scarce goods. □

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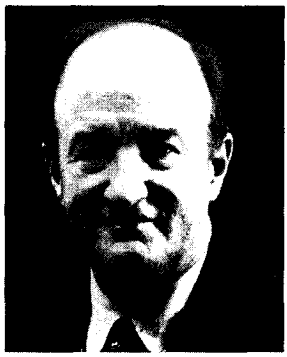

Pulling Down the Keynesian Cross

"The circle had come right round; it was as though Keynes had never been."
—ROBERT SKIDELSKY[1]

"Textbooks have to be rewritten in the aftermath of each scientific revolution."
—THOMAS S. KUHN[2]

In his third and final volume on John Maynard Keynes, Robert Skidelsky comes to the shocking conclusion that the Keynesian revolution was temporary, that Keynes's *General Theory* was really only a "special" case, and that "free market liberalism" has ultimately triumphed. This is all the more amazing given that Lord Skidelsky has spent the past 20 years of his professional career studying Keynes and resides in Keynes's old estate, Tilton House. Few scholars would have the guts to repudiate the theory of the man they adore.

It's even tougher for old dogs to learn new tricks, and that refrain applies to Paul Samuelson, the "American Keynes" who introduced millions of students to the "new economics" of the master. He continues to hang his hat on the Keynesian cross, even as he publishes the 17th edition of his world-famous textbook. The pedagogical paradigm keeps shifting further toward the classical model of Adam Smith, and as each edition of *Economics* moves in that direction, Samuelson resists the change. He cites his mentor more than any other economist; only Keynes, not Adam Smith or Milton Friedman, is measured as a "many-sided genius." His textbook still begins macroeconomics with the Keynesian model, even though most other textbook writers have adopted Greg Mankiw's method of starting with the long-run classical model.[3] According to Samuelson, Adam Smith's invisible-hand doctrine—that laissez-faire behavior maximizes social welfare—"holds only under very limited conditions."[4] On the final page (755) of his massive textbook, he renders "two cheers to the market, but not three."

Two Cheers for Hayek and Friedman

Having reviewed all 17 editions of Samuelson's magnum opus, I conclude that his textbook has gradually shifted, albeit grudgingly, from one cheer to two cheers for the market. Much of this improvement is due to Yale's Bill

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Nordhaus, his co-author since 1985. (He writes the entire text now, which Samuelson then reviews.)

What's new about the latest edition? More free-market economists are cited, including Julian Simon, Ronald Coase, James Buchanan, Arthur Laffer, Robert Mundell, and Gary Becker. Samuelson and Nordhaus devote an entire page (41) to F.A. Hayek and Milton Friedman, "guardians of economic freedom." They recommend Hayek's *The Road to Serfdom* and Friedman's *Capitalism and Freedom*, saying, "All thoughtful economists should study his arguments carefully."

In chapter 2, "Markets and Government in a Modern Economy," the authors highlight the benefits of globalization and the importance of property rights, noting that Russia and other former communist nations have suffered because of a failure to enforce "the legal framework."

They also add an entire new page on the issue of lighthouses as public goods. For years Samuelson used the lighthouse as a prime example of market failure; only government could build and operate lighthouses. Several years ago I chided Samuelson for ignoring Ronald Coase's famous essay, "The Lighthouse in Economics," which proved that the Trinity House and other lighthouses in England were built and owned by private firms that imposed tolls on ships docking at nearby ports.[5]

Now, finally, Samuelson and Nordhaus have responded to Coase's challenge in the 17th edition (pp. 37–38). They admit that privately operated lighthouses existed in England, but then point to the east coast of Florida as a case where "there were no lighthouses until 1825, and no private-sector lighthouses were ever built in this area." According to Nordhaus, the only response to shipwrecks was a thriving private "wrecking" industry that charged high fees for "saving lives and cargo." Nordhaus goes on to note that lighthouses have become obsolete, replaced by the satellite-based Global Positioning System, a service provided by the government.

In sum, the paradigm in economics has definitely shifted from Keynesianism to classical economics, but the case for complete laissez faire is still raging in the halls of academia. □

1. Robert Skidelsky, *John Maynard Keynes: Fighting for Britain, 1937–1946* (London: Macmillan, 2000), p. 506.

2. Thomas S. Kuhn, *The Structure of Scientific Revolutions*, 2d ed. (Chicago: University of Chicago Press, 1970), p. 137.

3. See N. Gregory Mankiw, *Principles of Economics*, 2d ed. (Ft. Worth, Tex.: Harcourt College Publishers, 2001). I still regard Roy J. Ruffin and Paul R. Gregory, *Principles of Economics*, 7th ed. (Boston: Addison Wesley Longman, 2001) as the best mainstream textbook on the market today.

4. Paul A. Samuelson and William D. Nordhaus, *Economics*, 17th ed. (New York: McGraw-Hill Higher Education, 2001), p. 325.

5. Mark Skousen, "The Perseverance of Paul Samuelson's Economics," *Journal of Economic Perspectives*, Spring 1997, p. 145. Coase's article appeared in the *Journal of Law and Economics*, October 1974, pp. 357–76.

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CAPITAL LETTERS

Does the Electoral College Really Help Small States?

To the Editor:

While I do not favor eliminating the Electoral College per se, Lawrence Reed ("Ideas and Consequences," March 2001) is incorrect in a major point—and it defines the need to modify the rules by which the College operates.

Mr. Reed states, "[T]he fact that a candidate must win a majority in the Electoral College means that he cannot focus all his resources in only a few large states." This was very much put to the lie by the last election. By just looking at the state and county breakdowns of both electors and election results, it is painfully obvious that a candidate need win far less than half of the 50 states to "win" a majority in the Electoral College, a situation nearly mirroring a straight democratic/popular vote. By specifically focusing on and creating a win in the east- and west-coast populous states (hardly "non-regional" ideologically), a candidate can utterly ignore everyone else but Texas.

No, we do not need to, nor should we, eliminate the Electoral College. Mr. Reed's reform would be a good legalism to address, but to adequately prevent an election dictated of, by, and for the coastal elite during a "close" race, we should also caveat the process to include a provision for shifting the balance of the vote in favor of the candidate who won a plurality of states (or perhaps counties, should there not be a plurality of states). In those circumstances, such a systemic change would provide a better "sense of the nation" and better "national" (versus "coastal") representation in the electoral process. To do otherwise, either with the abolition of the College or maintaining the status-quo, courts the specter of leaving the heartland with no practical say in electing an executive.

—Bryan Potratz
Spokane, Wash.

Lawrence Reed replies:

In hindsight, given what we now know of how the election turned out, Mr. Potratz's point has merit, but our difference is more one of degree than of substance. The Electoral College does not eliminate the temptation for candidates to focus on a few large states, but it does ameliorate it greatly. Indeed, not knowing how the electoral count would ultimately fall, neither one of the major party candidates actually ran a campaign aimed at only a handful of states. Both of them spread their attention across the great majority of states. Eliminate the Electoral College and you would vastly accentuate the value of a strategy that focuses on only a few.

A Question of Pensions

To the Editor:

My job as a pension actuary consists of calculating the liabilities of private-sector defined-benefit pension plans, such as those criticized by Mark Skousen in his article "Social Security Reform: Lessons from the Private Sector" (March 2001).

While I believe that there is a place for 401(k) plans, I also believe that a 401(k) should generally be a supplement to a defined-benefit pension plan, which should be the "anchor" of any medium or large employer's retirement program. Briefly, here are my reasons:

1. In a defined-benefit plan, the employer bears the investment risk. In a 401(k), the employee bears this risk. While this may seem a disadvantage during periods when investment returns are high (such as the recent past), we may be about to see just how much of an advantage (to the employees) a defined-benefit plan can be to employees when the market goes south.

2. While Mr. Skousen is correct that an

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employee leaving his job can take his 401(k) money with him to an IRA, he fails to mention that the employee can also take this money in cash (admittedly, after paying hefty taxes) and spend it, which hardly helps to make his retirement secure.

3. Mr. Skousen's point about short-service employees possibly not having "vesting rights" when they terminate employment is as true for a 401(k) plan as for a defined-benefit plan. While the employee's own contributions to a 401(k) are always 100 percent vested (as are his own contributions, if any, to a defined-benefit plan), this is not the case for employer contributions. (Many, if not most, 401(k) plans consist of both employee and employer contributions.) The rules (set out in the Internal Revenue Code and ERISA) are exactly the same for employer contributions to a 401(k) plan as they are for defined-benefit plans.

4. Even if a retiree (or an employee who leaves employment before retirement) uses his 401(k) money for the purpose for which it is intended, there is the distinct possibility, given today's increasing longevity, that he will outlive his money. This cannot happen with a defined-benefit plan, which promises a monthly income for life (and perhaps beyond, in the form of a pension payable to the employee's spouse after his death).

I agree with Mr. Skousen that the rules surrounding defined-benefit plans that have been propounded by government are more complex and detailed than they need to be. However, arguing from that that defined-benefit pension plans are always and everywhere inferior to 401(k)-type retirement vehicles is equivalent to throwing the baby out with the bath water.

—KENNETH T. PAWULSKI
(ktp@compuserve.com)
Amarillo, Texas

Mark Skousen replies:

I'm afraid Mr. Pawulski is letting his professional interest as an actuary overrule common sense about corporate defined-benefit plans. They just can't compare to the simplicity, cost, and flexibility of 401(k) plans. He is correct in saying that the employer bears the investment risk in a defined-benefit plan, and that with such a corporate-funded plan, the employee/retiree cannot outlive his money. But that's the very source of the problem I raised—the potential huge unfunded liabilities corporations (and the federal government) suffer from with these defined-benefit plans. That's why corporations are switching in droves to defined-contribution plans, such as 401(k) plans. I should also add that 401(k) plans do offer some advantages to employees over defined-benefit plans; for example, they offer the possibility that an individual employee can vastly outperform the extremely conservative investment strategy corporate fund managers traditionally take. Instead of investing solely in blue-chip stocks and bonds, employee investors can often invest in more aggressive growth stocks.

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BOOKS

Deliver Us from Evil: Peacekeepers, Warlords and a World of Endless Conflict

by William Shawcross

Simon & Schuster • 2000 • 413 pages • $27.50

Reviewed by Doug Bandow

The end of the Cold War led many people to hope for a new world order in which the United Nations would impose peace around the globe. But that dream died in the streets of Mogadishu, Somalia, and in villages across Rwanda. It died along with murdered Kurds in Turkey, battling Tamils and Sinhalese in Sri Lanka, and independence supporters in East Timor. It died in a dozen other conflicts around the globe.

In Deliver Us from Evil, William Shawcross hopscotches across the world's civil wars and disorders, describing well-intentioned but often ineffective international attempts to intervene. Many of the individuals involved are indefatigable.

Shawcross begins by introducing Frederick Cuny, a Texan who helped bring relief to the short-lived state of Biafra, which sought to break away from Nigeria more than three decades ago. Over the years he ended up in Kuwait, Somalia, and Bosnia.

Cuny recognizes the complexity of his work. In Biafra, Shawcross reports, "Cuny became convinced that the food lift was indeed merely sustaining the fighting." Moreover, in his view, Nigeria proved to be relatively merciful in victory. That experience caused him, and many other humanitarian workers, to advocate cutting off aid to the Cambodian government in 1975 because, he thought, "The Khmer Rouge can't be that bad." Oops.

The problems in Cambodia were immense. Corruption and vice accompanied the U.N. contingents. Cops from Third World countries "behave here just as they do in their own countries," one humanitarian worker told Shawcross. The Khmer Rouge refused to cooperate. The French complained that education was conducted in English. The Bulgarians were "more interested in organizing prostitution rings than in monitoring cease-fire violations."

Intervention in Somalia was a complete disaster. The mission proceeded under circumstances seemingly designed to result in failure. Reports Shawcross: "There was never a real cease-fire in Mogadishu, and the security force was unable to protect the aid and see that it went only to the starving. Instead, a lot of it went straight to clan fighters."

The Bosnian intervention was perhaps the most complex of all. President Clinton promised decisive action to stop the violence, but his advisers were divided. The administration's most fateful decision was to reject the 1992 Vance-Owen peace plan. Former Secretary of State Cyrus Vance and former British Foreign Secretary David Owen found Clinton's secretary of state, Warren Christopher, to have "barely studied their proposals." The administration then rejected the plan as being indecently generous to the Serbs, even though the proposal gave them less territory than they received, after three more years of bloody fighting, through the Clinton administration's Dayton accord.

Other failed missions litter the U.N.'s corridors. In Haiti the United States led an effort that transformed a military dictatorship into a presidential dictatorship. U.N. efforts in Sierra Leone actually reversed the government's success, achieved through the use of private mercenaries, against brutal guerrillas. Assistance for Rwandan refugees in Zaire was of dubious value. Reports Shawcross, "Aid officials constantly had to ask themselves whether they were doing more harm than good—whether their assistance was killing more refugees than it saved." The U.N. embargo on Iraq killed civilians without enforcing disarmament.

And then there was Kosovo, the most dramatic example of Western hypocrisy. As Shawcross delicately observes, "To repeat Boutros Boutros-Ghali's notorious remark about Bosnia, there were probably ten places

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in the world that were worse off than Kosovo at the time." Despite endless humanitarian rhetoric, the West seemed inclined to act only when white Europeans were at risk, their deaths were reported on CNN, and their killers represented an unimportant state, in this case Serbia.

Despite the U.N.'s unending failures and only occasional, limited successes, Shawcross remains hopeful of international action "to make the world a little less horrible." His book offers no policy prescriptions, but only experiences—experiences that should chasten anyone with grandiose ambitions about mounting global humanitarian crusades. His conclusion should be imprinted on the minds of U.S. policymakers: "humility is important. Not everything can be achieved, not every wrong can be righted simply because the international community desires it. We cannot suddenly rebuild failed states or failing territories into our own image; Bosnia will not become Michigan, nor Sierra Leone the Netherlands, just because we would like to see visions of harmony on our television screens." □

Doug Bandow is a monthly columnist for Ideas on Liberty.

From Subsistence to Exchange and Other Essays

by Peter Bauer

Princeton University Press • 2000 • 168 pages • $19.95

Reviewed by Craig A. Depken II

Recent protests at the World Trade Organization meetings in Seattle, the International Monetary Fund in Washington, D.C., and the Republican and Democratic national conventions, seem to have reinvigorated the critics of globalization. Are economists at a loss to answer those protests?

Sadly, Lord Bauer has not been included in the recent debates over globalization. He offers cogent arguments to temper the anti-Western guilt that permeates the anti-globalization movement. Many economists agree with Bauer as to what promotes economic growth, even if they are reluctant to admit such agreement in public.

This collection of Bauer's essays gives us his explanation of the primary causes of economic growth. His writings are intellectually significant but likely to be ignored by the general press and anti-Western mouthpieces because what they suppose is the "disease" is actually the "cure"—economic development. The general debate over globalization is really a debate over trade and economic growth in the less-developed countries, and Bauer provides ample evidence and convincing logic showing why trade is good and why economic growth occurs for all the reasons anti-globalists claim it cannot.

Bauer observes that economic growth in the international arena occurs after domestic exchange has been established. Indeed, how are people in one country to establish trade relations with others if they cannot or do not trade amongst themselves? Further, he emphasizes the valuable mechanisms and mores that market exchange provides a society. The anti-globalists never grasp the importance of voluntary exchange, but Bauer shows it to be crucial.

Then Bauer reminds us of the obvious: that the developed countries of today were once underdeveloped. The surplus of resources available to the indigenous people of pre-Columbian North America did not guarantee economic growth. Likewise, the relative lack of natural resources did not impede Great Britain or the Asian Tigers from becoming developed. Rather, the innovative development of relatively free, stable, and resilient market exchange combined with contacts with other similar systems ensured that the lesser-developed and developing countries of the fifteenth and sixteenth centuries are today developed. Today's lesser-developed countries can attain prosperity in exactly the same manner.

The implicit warning Bauer gives is that obtaining the sacred title of "developed" will not and cannot occur overnight or even within a few years. Rather, the path to development may take generations; another point anti-globalists seem eager to dismiss.

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Bauer contends that the coincidence of domestic markets and contact with the developed countries enable growth and development. Trade with the developed world expands choices, but it also increases local knowledge and institutionalizes the market structures that are necessary for growth. Rather than accuse the West of exporting hegemony, Bauer contends that contacts with Western societies motivate and facilitate development, regardless of location on the world map.

Conclusion: market economies offer the quickest route to sustained, environmentally friendly, and equal-opportunity growth. Bauer argues convincingly that assumed and directed guilt has made the West afraid to accept the ramifications of its success. Rather than apologize for their economic success, those who enjoy the benefits of relatively free economies should argue that the path to sustained, eco-friendly growth is to have more contacts with the West and to adopt laissez-faire policies.

Why read this collection? If one questions that what has been good for the West is also good for the rest of the world, Bauer offers argument and evidence to end your confusion: what has been good for the West, and the East, is good for *all* developing countries. If you bridle against Western "hegemony" and wish that economic growth would occur instantaneously, or only after massive wealth transfers from the West, Bauer offers a strong case for economic freedom. His ideas deserve a seat at the debate over globalization. □

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The Tyranny of Good Intentions
by Paul Craig Roberts and Lawrence M. Stratton
Forum • 2000 • 242 pages • $24.95

Reviewed by George C. Leef

How safe are people from the encroachments of government into their lives? That has varied from place to place and time to time. In Stalin's Soviet Union, for example, people had no security whatever. The rulers could do with them as they pleased because the concept of a sphere of personal freedom protected by the rule of law was unknown. Even the wealthy and powerful could be done away with when their superiors thought it expedient.

Contrast the situation of a high Soviet official like Nikolai Bukharin (who was summarily tried and executed in one of Stalin's purges) with that of an unemployed British coal miner at the same time. The lowly coal miner's life, liberty, and property were protected against government incursion as strongly as the crown jewels. "The Rights of Englishmen" was a revered notion that kept government in check.

Under our constitution and common-law heritage, Americans too enjoyed "the Rights of Englishmen," but as economist Paul Craig Roberts and legal scholar Lawrence M. Stratton demonstrate in *The Tyranny of Good Intentions*, we are losing the legal protections that our ancestors took for granted. The authors write, "America's reputation as the 'land of the free' is rooted in its Anglo Saxon legal and political tradition. As the twenty-first century begins, there is evidence that much of this tradition has been lost." They proceed to prove that the laws which once shielded Americans from grasping, self-promoting officials have been so weakened in recent decades that we are now at the mercy of politicians, bureaucrats, and especially rogue law-enforcement agents.

The examples Roberts and Stratton provide are numerous and frightening. One of the greatest of the holes in the rule of law has come from asset-forfeiture provisions, which

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now put the property of every American in jeopardy. Yes, *every*. There is no way for anyone to ensure that some spurious charge of illegal activity won't be made against you, or that someone won't somehow use your property in connection with any of our growing list of crimes. Consider, for example the case of Exequiel Soltero. In 1993, the Drug Enforcement Agency seized his Seattle restaurant under the justification that his brother, who had no ownership in the business, had sold some cocaine in the men's room. The complete innocence of Exequiel was irrelevant; his property had been "used in the commission of a crime," and that's all it takes. When the misdeeds of others can cost you your property, *no one is safe*.

The Soltero case isn't a unique, isolated instance. Seizures like that happen routinely as "law enforcement" officials have realized that the easiest way to pad their budgets is to seize property. Even if the case is thrown out, rarely does the owner get back all that he has lost. Often our illustrious law enforcers will strike a deal like this: "We'll give you back half if you agree not to sue for it all—but if you do, we'll tie you up in court for years."

Roberts and Stratton aren't saying that all or even a significant percentage of law-enforcement personnel are so dishonest as to use the forfeiture provisions for their own gain, but it's clear that it is now *possible* for them to do so. It's a license to steal that will attract those who aren't burdened with too much conscience.

Also frightening are the cases Roberts and Stratton present showing prosecutors who are so interested in polishing their public image (usually in quest of higher office) that they will prosecute and convict innocent people. Under our old legal order, the authors write, "Since the prosecutor's function is to find truth, he must not override the rights of the defendant in order to gain conviction." But that ethic has been widely replaced with a win-at-all-costs mentality among prosecutors, who now frequently withhold exculpatory evidence, manipulate the media to color public perceptions of the case, suborn perjury, and use other tactics designed to make themselves look "tough" and "effective" to the public.

Other targets of Roberts and Stratton include the criminalization of accidents, the trend toward ex post facto laws, and plea bargaining as a form of coercion.

Who is responsible? Both "liberals" and conservatives have a lot to answer for, say the authors. Much erosion of our legal protections has come at the hands of "liberals" eager to use draconian measures to, as they see it, "protect the environment." And much has also come at the hands of conservatives who have concluded that the war against drugs cannot be won without resorting to methods reminiscent of the Inquisition. People in both main political camps have shoved aside our traditional legal order with its strong defense of life, liberty, and property for all, in their zeal to win the political battles of the day. □

George Leef is book review editor of Ideas on Liberty.

U.S. by the Numbers: Figuring What's Left, Right, and Wrong with America State by State

by Raymond J. Keating and Thomas N. Edmonds

Capital Books • 2000 • 960 pages • $35.00

Reviewed by William H. Peterson

An Entrepreneurial Revolution. This is the watchword-guidepost here of Mr. Keating, chief economist of the Washington D.C.-based Small Business Survival Committee, and Mr. Edmonds, a political media consultant and coauthor with Mr. Keating of their successful 1995 book, *D.C. by the Numbers: A State of Failure*.

To be sure, the Entrepreneurial Revolution sought by the authors has not been exactly dormant in America over the years, with the United States enjoying the world's highest gross domestic product per capita. But entrepreneurship is certainly in a beleaguered state today as the country continues to grapple with the inner contradictions of the welfare state. It is those contradictions—a power struggle between the public and private sectors—that are confronted and tracked numerically by the Keating-Edmonds team both for

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the nation (in 71 pages) and for each of the 50 states and the District of Columbia (in 865 pages).

Nationally, the authors note a trend of government-spending increases that far outpace population growth. In other words, they see the public sector—the coercive government sector—swelling, while the voluntary sector of society shrinks, at least relatively. To wit:

From 1960 to 1997, total real government revenues—federal, state, and local—increased by 289 percent, so that government in the United States eats up today more than 31 percent of the GDP.

From 1960 to 1999, real federal payroll tax revenues increased by an estimated 614 percent.

From 1960 to 1999, real federal revenues increased by an estimated 236 percent, accounting for about two-thirds of the total government take, including some $250 billion in annual federal grants to state and localities.

Those grants are usually on a 50-50 cost-sharing basis for projects favored by Washington, a trend that does not bode well for federalism or whatever is left of states' rights.

For example, the authors observe that in America's welfare state (and because of welfare-state support of unwed mothers?) the portion of live births to unmarried mothers climbed from 3.5 percent in 1940 to 5.3 percent in 1960 to 18.4 percent in 1980 and to 32.4 percent in 1997. Rising illegitimacy of course adversely affects crime, health, housing, work, education, and other social and economic trends in America.

To get from here to there, to a reinvigorated Entrepreneurial Revolution, our authors suggest that federal policy abandon Keynesian-Phillips Curve inflation-employment tradeoff thinking, as well as talk of macroeconomic "aggregate demand." "Coming from a Randian/Austrian economics background," they write, "[Fed Chairman Alan] Greenspan should know better."

On fiscal and regulatory policy, they call for sharply lower government spending and taxation. Keating and Edmonds argue that the best capital gains tax policy is not to tax capital gains at all. They also advocate the repeal of death taxes and do not take kindly to the minimum wage, holding that it deflects hiring and on-the-job training from those who need it most.

The authors' data on the states (including D.C.) demonstrate the acuity of their pro-market vision.

California, for example, imposes a capital gains tax rate of 9.3 percent, the highest in the country; its personal income tax rate, also 9.3 percent, is the third highest; and its corporate income tax rate of 8.84 percent is the 12th highest, an "antigrowth tax system," charge the authors. Still, California boasts of Silicon Valley employing a million people, a healthy inflow of immigrants, and good trade access to the Pacific Rim. All in all, California is rated as having a so-so investment environment—and that's before its current electricity imbroglio.

The book is a gold mine of data, charts, and trends that lay out a comparative competitive analysis of the United States in a global economy and of each state struggling for investment dollars and economic growth. It should prove to be an invaluable reference work for bankers, entrepreneurs, newspaper and TV-radio editors, academic and business economists, land developers, and legislators. □

Contributing editor William Peterson is an adjunct scholar at the Heritage Foundation.

Suburban Nation: The Rise of Sprawl and the Decline of the American Dream

by Andres Duany, Elizabeth Plater-Zyberk, and Jeff Speck

North Point Press (Farrar, Straus and Giroux) • 2000 • 290 pages • $30.00

Reviewed by Jane S. Shaw

The authors of *Suburban Nation* are luminaries in the movement called "the New Urbanism." Their goal is to stop what they view as the misshapen sprawl around cities, which they consider alienating, destructive of community, and wasteful of land. *Suburban Nation* is, in their words, a "call to arms" to redesign American communities.

Andres Duany, Elizabeth Plater-Zyberk,

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and Jeff Speck are scathing in their denunciation of suburbia today. A typical suburb is a "city of garages" and "single-use pods." The "stupefying monotony" is relieved only by gimmicks such as multiple gables and peaked roofs (a "house on steroids"), the "California jog" (a series of homes placed diagonally on a lot), and "dingbats" (apartment buildings built over their own parking lots). As for the cul-de-sacs and curving roads of suburbia, they are "utterly disorienting."

These suburban pods are linked by highways to which commercial strips attach "like a parasite." The distance between neighborhoods isolates people, and the separation of commercial and residential sectors blocks a sense of community. The authors contend that amenities like cathedral ceilings and luxurious bathroom spas exist primarily "to fill the spiritual void created by the absence of community."

The automobile is the villain, a "potentially sociopathic device" that allows people to live in distant, scattered locations and still hold jobs. The authors want towns and cities to look the way they did in the first half of the twentieth century, before the automobile took over. Their plan is this: New neighborhoods must be designed with straight streets in a grid-like pattern, with alleys behind houses so that garages are hidden. Population density should be high, with single-family homes close to the street, townhouses abutting the street, and apartments above storefronts. Residents should live within walking distance of shopping and a public transit line. Commercial buildings should create "pedestrian-friendly" streetscapes with their storefronts, and their parking lots should be out of sight (getting pedestrians from one to the other, they admit, is "tricky").

Major streets should be narrow and one-way streets avoided (because they encourage speeding). Residential streets should use "traffic calming" devices such as "speed bumps, rumble strips, hammerheads, flare-outs, doglegs, and other combinations of geometry, landscape, and street furniture." In fact, the authors recommend 26-foot-wide two-way residential streets. Those streets are not wide enough for two cars to pass one another, so when cars meet, one of them must move into the parking lane (assuming that it is not in use) to let the other go by.

The authors know that achieving their goals beyond a few idiosyncratic neighborhoods will require governmental force, but they employ euphemisms, talking in terms of "incentives" and "federal funding criteria." They recommend the formation of a "regional-scale agency" that can address problems through a "comprehensive Regional Plan." They urge plans to be "drawn with such precision that only the architectural detail is left to future designers."

Since regional agencies are few in number, they urge states to take an active role, withholding funds for towns that lack "smart growth" planning and overruling state transportation departments if necessary. (Transportation departments are part of the problem because they concentrate on moving automobiles quickly, rather than accommodating the cars to town or city destinations.)

The federal government, too, must get involved. Not only should more public transit be financed through gasoline taxes but the government should use its funding power to "regulate the urban design within a half-mile radius of all new stations." There must be "federal incentives to convince developers to do business downtown" and a "federal initiative" that coordinates "affordable housing provision, business assistance, job creation, and social services." With their plan in place, it seems that there would be little left for the market to address or private individuals to make decisions about.

Sprawling growth and especially suburban traffic upset many people, but the suburbs exist because millions of individuals have assessed their options and chosen to live there. Duany, Plater-Zyberk, and Speck want to overthrow those decisions and fit people into living patterns they think are better.

The book does offer some useful insights into neighborhood design and layout. It sheds light on the mistakes of architectural "modernists" who thought that their buildings could change human nature and recognizes that a lot of "cookie-cutter" housing stems from rigid zoning codes.

Unfortunately, the authors don't want to

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free up zoning codes or let ideas compete in the marketplace. Convinced that they know what is best for Americans, they want the government to impose it. Such arrogance, as we know from history, is the first step on a journey to tyranny. It may well be that *Suburban Nation* is the road map.

Jane Shaw is a senior associate of PERC (the Political Economy Research Center) and co-editor with Ronald D. Utt of A Guide to Smart Growth: Shattering Myths and Providing Solutions *(Heritage Foundation and PERC).*

Workin' on the Chain Gang: Shaking Off the Dead Hand of History

by Walter Mosley

Ballantine Books • 2000 • 118 pages • $16.95

Reviewed by E. Frank Stephenson

Walter Mosley, author of the Easy Rawlins mysteries, departs from the detective genre to offer us *Workin' on the Chain Gang: Shaking off the Dead Hand of History*. This economic diatribe is part of Ballantine's misnamed "Library of Contemporary Thought," for there is nothing contemporary about Mosley's economic thinking. As with a recycled whodunit, we've seen the plot of *Chain Gang* before: Mosley's primal scream against the "voracious maw of capitalism" consists of little more than the class warfare of Marx and Engels.

Labeling Mosley's thinking rehashed Marxism is not an exaggeration. "Production," he posits, is "always the job of the lower to lowest classes of society" whereas "the middle and upper classes enjoy the fruits of production." If anything, Mosley's world is even grimmer than Marx's; workers are not only exploited at work but also as consumers: "Today the worker is not only the engine of production but also the consumer. She sells her labor cheap and buys at full price."

Mosley, however, is just warming up. It is in his chapter "Defining the Great Enemy: The Margin of Profit" that Mosley is yelling at the top of his Marxist lungs. Here he defines profit as "how much you make off the labor of others," claims that "[t]he world of profit is a world of plunder, and informs us that "[t]here's a natural conflict between the Lilliputian population of workers and the humongous beast of production." Marx and Engels should sue for a share of the royalties.

As with Marx, capitalist exploitation in the world of Walter Mosley extends beyond national borders. He excoriates us for the "economic havoc we have caused in the third world by paying slave wages to local workers to make the price attractive." (Is the price attractive or full? Mosley cannot seem to make up his mind.) He further opines that the job security and low inflation of the postwar era "were the results of poverty in *other* countries, which couldn't compete with our advanced industrialization." And to think that Milton Friedman believes inflation, or the lack thereof, is "always and everywhere a monetary phenomenon."

Of course, for any Marxist analysis to be complete, there must be an opiate to keep the exploited masses from rising up. Perhaps in an attempt to avoid lifting the entire story directly from Marx, Mosley does not finger religion. (Maybe this is the contemporary part.) Instead, he tells us that "[t]elevision is our opium, our nightly bowl of hazy, unfocused dreaming" that brings "spectacle and illusion" to the lower classes because "[t]he best way to keep a worker working is to bedazzle her or him" and "[s]ublimation is the best remedy for rebellion."

That Mosley sees a world of class conflict is bewildering given his background growing up in the Watts area of Los Angeles. Appearing on C-SPAN's "Booknotes," Mosley told host Brian Lamb that his parents "had simple jobs" but "they slowly climbed up into the middle class." Mosley continued: "[M]y father remained being a janitor, became a maintenance supervisor, a building supervisor. My mother just worked up [as a school clerk]. My father started buying apartment buildings. . . . [H]e said, 'If the buildings pay their own rent, then we'll always be secure.' But they actually ended up doing much more than that."

That's right—Mosley's own family was upwardly mobile because his parents worked

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hard in menial jobs and invested their savings in rental properties. His father was even—gasp—a capitalist! This results in *Chain Gang's* only true mystery, namely, why Mosley discards his own life experiences in favor of his chattering-class communism.

So what would Mosley prescribe to get us out of capitalism's vicious jungle? While one expects that he will settle for nothing less than the overthrow of the capitalist system, the tepid policies he envisions as "impossible and ridiculous" amount to little more than what one might get from Al Gore or even George W. Bush. Mosley believes "we should assure the education of our children and the welfare of our aged" and "everyone has a right to a living wage, a right to competent medical care, and a share in the natural resources that the nation either owns or creates." Third Wayers of the world unite!

In the end, Mosley's manifesto is unable to shake off the dead hand of Marxism; *Chain Gang* is an anti-capitalist rant that ends with a whimper. □

Frank Stephenson is an assistant professor of economics at Berry College.

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IDEAS ON LIBERTY
JUNE 2001

I, Pepsi

One of Frédéric Bastiat's great insights into understanding economics was to distinguish what is seen from what is not seen. Searching out the unseen is in many ways the essence of economics.

A soda bottling plant may seem like a strange place to do economics, but come along with me and take a look at what is seen. Here's what a typical plant might look like. The first thing you notice is the size. It's an enormous room—it feels like a football field with a big roof. At one end of this enormous room are rows and rows of finished soda in liters and cans, on pallets, stacked to the roof, ready to be loaded onto trucks. Then there are rows and rows of empties ready to be filled. And there is a massive roller coaster-ride structure that takes the empties into the filling room and back out to be assembled into six packs and cases.

The filling room is walled off in glass from the rest of the facility. The empty cans enter through a gap in the glass and are loaded onto a giant roulette wheel-like structure with a diameter of maybe ten feet. The empties ride along the edge of this wheel and over 100 nozzles come down and fill them with soda. Then they're spun off the wheel to be pushed into six packs.

And here an amazing thing happens. Right after the just-filled cans are spun off the wheel, you want to make sure that the can is filled correctly. Sometimes the nozzles that fill the cans get clogged. Have you ever opened a can of soda to find it only half-filled? I'm sure it has happened, but for most consumers, it must be a once-in-a-lifetime or never-in-a-lifetime experience. So someone must have figured out a way to keep partially filled cans from being packaged with the full cans.

But how? Nothing really complicated, it turns out. A device shoots a gamma ray of photons through the can at just the right height, and a crystal sensor on the other side counts how many photons get through. If too many get through, it means the can wasn't filled correctly. So the can gets thrown off the line to prevent it from joining a six-pack. Remarkable, isn't it?

That the beam automatically detects a partially filled can is a great feat of engineering. But it also identifies which nozzle filled the can so that it can be cleaned out. Amazing.

Skeleton Staff

Only a handful of people actually work in this factory. It basically runs itself. The main job of the workers is to make sure everything is running as it should.

Here's how well it runs. A state-of-the-art facility with two filling lines working can fill over 1.5 *billion* cans of soda in a year. Yes, 1.5 billion. How many people are necessary to produce those *billion and a half* cans? Maybe 10 or 20 people, depending on the facility and

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whom you count as production workers. Twenty people can take over *one billion* empty cans and get them filled and put on a pallet, ready for shipping.

Imagine taking everything out of the factory so it's just a shell. Take the ten smartest people in the world. Tell them they have total freedom. What is the best way to fill and package cans of soda? Tell them they can use as many workers as they want. They can design and build any machine they want, as long as it fits in the space. Then tell them that whatever the cost of the machinery and the people they hire, it's got to come out of the revenue they receive from selling the soda at say $3 a six-pack. Of course, that's the retail price. They'd really have to get by on maybe $1.50.

They couldn't do it. It would take them a millennium just to design and build the machinery, and even then, they wouldn't get it right.

It appears to the eye that ten people produce a billion cans of soda in a year. That is what is seen. What is unseen is the labor that goes into the machinery that helps those ten workers get the job done. Think about the machine that fills the can or the one that checks if it's full. Someone had to think of it and design it and build it and improve it. It's more than one person. It's an army of people. And that's only one tiny part of what produces the can of soda you drink for a mere 50 cents.

Imagine what a soda would cost if you didn't have that technology. Simple answer: a lot more. Imagine how many people would be working in bottling plants if we didn't have that technology. Simple answer: a lot more.

How did it happen? Who drove the innovation in the soda business? Coke and Pepsi, of course. And others. But who decided how fast the progress would go and what innovations were worth pursuing? Who decided that the present level of innovation wasn't good enough? Who decided how much better things would get? Who decided how few jobs to put in the bottling plant and how many to put designing the laser and the assembly line itself and even the building down to how many doors on the loading dock and how high to make the ceiling?

No one was in charge. And that is the greatest unseen phenomena, the marketplace itself. We don't see the competition and striving that transformed the bottling plant and every aspect of the industrial world. All we see are the results.

A little over 40 years ago, Leonard Read wrote his essay "I, Pencil." (If you have never read it, you can read it online at: www.fee.org/about/pencil.html.) In "I, Pencil" Read makes the point that no one knows how to make a pencil. He describes the vast knowledge it takes to make something as simple as a pencil. He describes the incredible coordination among all the suppliers who have to combine to make a pencil. All those people were unseen beyond the factory. Read knew that every product had armies of unseen helpers who in the background helped produce the goods that we enjoy.

Read was talking about a pencil at a particular point in human history. But as Don Boudreaux pointed out in his column last month, take any product and there is a second level of unseen helpers, those who help invent and design and produce the technology that improves the product over time.

What a world we live in. Look for the unseen and marvel at it. □

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"The state is the great fictitious entity by which everyone seeks to live at the expense of everyone else."

FRÉDÉRIC BASTIAT (1801-1850)
The State

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